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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Volume X, Number 3

November 8, 1985

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST NINE MONTHS OF 1985

Product	Jan-Sep. 1985	% Jan.-Sep 1985 over Jan.-Sep 84
Electricity (bil.kw.hrs)	1125	104
Petroleum (inc. gas condensate) (mil.tons)	445	96
Natural Gas (bil.cu.mtrs)	473	110
Coal(mil.tons)	542	101
Steel (mil.tons)	115	99
Fertilizer (mil.tons)	24.5	106
Metal-cutting tools (mil. rubles)	1980	111
Robots (1000s)	10.9	102
Computer Technology (bil. rubles)	3.1	111
Tractors (mils.)	39.3	105
Paper (mil. tons)	4.4	101
Cement (mil. tons)	97.3	99.6
Meat (mil. tons)	8.0	103
Margarine (1000 tons)	1.0	98
Watches (mils.)	50.5	107
Radios (mils.)	6.4	93
Televisions (mils.)	6.9	104
Automobiles (1000s)	992	100

PRODUCTION RESULTS FOR THE FIRST NINE MONTHS OF 1985

Gorbachev's discipline campaign continues to show results. Most of the major industrial indices show an increase in the rate of growth.

Most striking is the fact that petroleum output in September 1985 compared to September 1984 declined by only 2%. For the whole nine months, the figures indicate that it dropped 4%. However, if the present trend continues, when the figures are available for October 1985, the drop in growth for the whole ten months should only be about 3%. Most impressive of all, of course, is the fact that in June while production dropped 5%, it dropped only 4% in July, 3% in August and now 2%, the most recent figure for September. That suggests that Gorbachev's visit to West Siberia and the oil fields has already bourne some fruit and the emphasis on dicipline and anti-alcohol has been worth the effort. It is ironic, of course, that many analysts have seen the figures for the nine months as a whole and have missed the change in direction reflected by the marginal or month by month production comparisons. The same type of change seems to be taking place in the other industries, for example, electrical output has increased by 5% in September to September whereas for the whole nine months it rose only 4%. Similarly coal production rose by 2% on a September by September basis compared to a 1% increase for the whole 9 months. Most impressive of all (at least

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according to Gorgachev's standards) is that steel production rose 8% in September compared to the similar month a year earlier while output for the whole nine month period is down by 1%. There is every reason to believe that this trend will continue for the rest of the year and that the difference is primarily due to Gorbachev's crackdown.

PREPARATIONS FOR ARDEN HOUSE ARE NOW UNDERWAY

We are in the process of preparing the Arden House Program. We have already received an acceptance from Ambassador Arthur Hartman in Moscow. He will be the keynote speaker on March 21st. The congressional panel will include Senator Paul Simon who has also agreed to speak. At least two other senators have indicated tenatively that they will be able to attend and we should have more concrete information about that next month. In the meantime please set aside your calendar for March 21st to the 23rd for the tenth Arden House conference.

CURRENCY FIGURES

Rubles Purchased Per 100	Oct 1984	Sept 1985	Oct 1985
Austrian shilling	3.92	4.04	4.22
U.K. pound	104.65	111.29	111.86
W. German mark	27.43	28.49	29.64
U.S. dollar	86.00	83.05	78.80
French franc	8.95	9.36	9.71
Swiss franc	33.46	34.59	36.18
Japanese yen	.327	.342	.362
Italian lira	.0482	.0427	.0439

According to the report released by Gosbank SSR, as of October 1, 1985 all of the currencies listed above varied only slightly from last month's figures. As expected, the U.S. dollar decreased somewhat moving from 83.05 rubles purchased per 100 dollars to 78.80.

THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, **Marshall I. Goldman and Gary Eynatian.** RRC @ 1985

LIVESTOCK HERDS (Millions)

	10/1/84	10/1/85	9/1/85 as % of 9/1/84	10/1/85 as % of 10/1/84
Cattle	95.7	95.4	99.9	99.6
Cows	29.7	29.4	99.3	99.0
Hogs	62.3	60.3	96.2	96.8
Sheep & Goats	124.1	121.0	97.2	97.5
Chickens	755.0	777.1	103.7	102.9

The size of the cattle, cow, hog, sheep & goat herds on 10/1/85 had all dropped relative to those that existed on 10/1/84. The rate of the drop however for hogs, sheep & goats was not as sharp as it had been on a 9/84 to 9/85 basis. Nonetheless, the cattle and cow herds did show a greater drop than in a month eariier. Some have argued that the drop is not as significant as it looks because the quality of the livestock herds are higher. In other words, the Soviets are stressing quality rather than quantity of animals.

THE SOVIET BALANCE WITH EASTERN EUROPE FOR THE FIRST HALF OF 1985

(see accompanying table, pg. 3)

The trade figures with Eastern Europe show that the Soviet surplus with all of Eastern Europe fell by half of what it was from the preceeding six months of 1984. The Soviets still have a trade surplus with all six countries to combine, but not with East Germany, Hungary and Romania. Their main trade surplus is with Poland. Perhaps the most interesting figure is the trade surplus that Romania has accumulated. Since Romania normally attempts to balance its trade with the Soviet Union, the fact that it has accumulated approximately a 200 million ruble surplus is unusual and probably reflects the very significant crackdown the Romanians have instituted on their domestic economy. They have apparently tried not only to increase their exports to the hard currency world but to the ruble bloc as well.

Soviet export figures to Eastern Europe, unlike those for Soviet exports to Western Europe which dropped so sharply, show a small increase. That suggests that exports of energy to Eastern Europe have remained much the same (assuming a small price increase) and in any case were not cut back sharply as in Western Europe.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE FIRST HALF OF 1985

(in million rubles)

	Exports from U.S.S.R.				Imports to U.S.S.R.			
	1982	1983	1984	1985	1982	1983	1984	1985
Bulgaria	2372	2880	3174	3156	2259	2573	2823	2912
Czech.	2460	2855	3346	3317	2491	2766	2996	3246
GDR	3093	3321	3583	3710	2902	3228	3772	3821
Hungary	1991	1961	2266	2207	1793	1886	2042	2280
Poland	2363	2595	2916	3089	1880	2382	2594	2611
Romania	660	849	952	889	921	891	943	1083
	12940	14461	16237	16368	12246	13726	15170	15953
	+694	+735	+1,067	+415				

THE CORPORATE SPONSORS SEMINARS

The next Corporate Sponsor Seminar will take a look at the relationship between the German Democratic Republic and the Soviet Union. The conference is scheduled for Monday, February 10, 1986. It is being organized by Norman Naimark and promises to provide us an interesting look at German-Soviet relations. A copy of the program and an application form are included with the Newsletter.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH
CENTER

Volume X, Number 4

December 9, 1985

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST TEN MONTHS OF 1985

Product	Oct. 1985	Jan-Oct. 1985	% Jan.-Oct 1985 over Jan.-Oct 84
Electricity (bil.kw.hrs)	132	1257	104
Petroleum (inc. gas condensate) (mil.tons)	50.8	495	97
Natural Gas (bil.cu.mtrs)	56.4	529	110
Coal(mil.tons)	61.4	604	102
Steel (mil.tons)	13.4	128	99.3
Fertilizer (mil.tons)	2.8	27.3	107
Metal-cutting tools (mil. rubles)	226	2206	112
Robots (1000s)	1.4	12.4	104
Computer Technology (bil. rubles)	0.4	3.4	111
Tractors (mils.)	4.5	43.9	104
Paper (mil. tons)	0.5	4.9	102
Cement (mil. tons)	11.3	109	99.9
Meat (mil. tons)	1.0	8.2	102
Watches (mils.)	5.8	56.3	100.4
Radios (mils.)	0.8	7.2	93
Televisions (mils.)	0.8	7.7	104
Automobiles (mils.)	0.1	1.1	100

PRODUCTION RESULTS FOR THE FIRST TEN MONTHS OF 1985

It's beginning to sound like a broken record. Nonetheless, Gorbachev's program of discipline and hard work does seem to be working. The most interesting index to watch each month is in oil production. As the table indicates, production for the first ten months of 1985 is 97% of what it had been for the first ten months of 1984. That is an improvement over what was reported in our last several newsletters when the figure was 96%. More importantly, the comparison on a month by month basis for October 1985 shows that production was down by only 1.4% which rounded off comes to 1%. That is a continuing improvement from the figure for June which showed a drop of 5%. There seems to be little doubt that total production for all of 1985 in the petroleum industry will be below 600 million tons or 12 million barrels a day. But it will not be by as much of a drop as it looked like earlier. Indeed there is every reason to believe that Gorbachev by force of will has shaken up the petroleum industry so that within the next several months, production should be back up to where it had been the year previously and that the Soviet Union will then begin to show a slight increase in production. Again, the prophets of doom in the petroleum industry look like they may have been premature and they will have to wait before Soviet petroleum production does drop on a regular basis.

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Along the same lines, coal production on a month by month basis for October is up 3%. Again the marginal improvement is better than the average for the entire ten month period. The same thing can be said about steel production which is up in October by 3% compared to a slight drop for production on a ten month basis. All of this seems to reflect the shake-up in economic leadership and emphasis on discipline that Gorbachev has been instituting.

ARDEN HOUSE SCHEDULE NEAR COMPLETION

As announced earlier, the program for the tenth annual Harvard-Columbia Arden House Conference on U.S.--Soviet Affairs is near completion. We have already received an acceptance from Ambassador Arthur Hartman in Moscow to be the keynote speaker on March 21st. Deputy Assistant Secretary of State Mark Palmer and National Security Council Advisor Jack Matlock have also indicated that they also expect to participate. The congressional panel will include Senator Paul Simon. At least two other senators have indicated tenatively that they may be able to attend.

After the recent meetings in Geneva, it should be particularly interesting to hear what took place from those who were involved in the discussions. So, please mark your calendars on March 21st to the 23rd for Arden House. We will be sending out the first draft of the program and an application form in early January.

LIVESTOCK HERDS (Millions)

	11/1/84	11/1/85	10/1/85 as % of 10/1/84	11/1/85 as % of 11/1/84
Cattle	95.1	94.6	99.6	99.4
Cows	29.6	29.3	99.0	99.0
Hogs	61.5	59.8	96.8	97.2
Sheep & Goats	118.9	116.1	97.5	97.6
Chickens	748.3	764.3	102.9	102.1

The size of the livestock herds continued to be below what they were a year ago except for the chicken population. The decline in cattle herds seems to have accelerated a bit in November but in other types of livestock the drop did not seem to be quite as sharp.

CURRENCY FIGURES

Rubles Purchased Per 100	Nov 1984	Oct 1985	Nov 1985
Austrian shilling	4.01	4.22	4.23
U.K. pound	105.65	111.86	110.81
W. German mark	28.19	29.64	31.25
U.S. dollar	83.70	78.80	77.71
French franc	9.18	9.71	9.77
Swiss franc	34.30	36.18	36.31
Japanese yen	.347	.362	.382
Italian lira	.0454	.0439	.0441

According to the report released by Gosbank SSR, as of November 16, 1985 all of the currencies listed above varied only slightly from last month's figures. Understandably, the U.S. dollar and U.K. Pound decreased somewhat with dollars moving from 78.80 rubles purchased per 100 dollars to 77.71 and the pound from 111.86 to 110.81. Not a very significant change by any means however. Other currencies gained a very slight bit. Again, nothing significant worth noting.

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Seasons
Greetings

GORBACHEV CALLS FOR INTENSIVE GROWTH

By

ABRAM BERGSON

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Emeritus & Former Director of the Russian
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Since his elevation to General Secretary on March 11, Mikhail S. Gorbachev has been the subject of a cascade of western media commentary, but—as not always grasped—he has been conducting a veritable campaign on the lackluster performance of the Soviet economy. Clearly he is especially troubled by the faltering Soviet growth rate, lately just matching U.S. post oil-shock tempos. To increase that rate will be a cardinal concern of his new administration. That is evident from Gorbachev's numerous speeches, including three major ones in the Party Central Committee, and from the associated information drive now in progress.

With all the attention he is giving the economy, Gorbachev thus far has tended to be rather general on how the growth speed-up is to be accomplished. Further details doubtless will be supplied when a new five-year plan is unveiled at the Party Congress scheduled for next February. Gorbachev could easily be disappointed, though, by results of the course he is apparently bent on pursuing.

We begin to see why that might be when we consider that the decline in growth is not exactly a new development in the USSR. It has in fact been in progress ever since the fifties. That is apparent from official Soviet data on the so-called "net material product" (NMP) as well as CIA calculations of the GNP (Table 1).

As shown, there are two Soviet series rather than one, but the limited difference between them is unimportant here. Oddly, the decline in growth is more pronounced in the Soviet data than in those of the CIA. As well as being more reliable, however, the CIA calculations alone conform to accepted Western methodology. For example, the CIA data, as is well known, take into account diverse services that are omitted from NMP.

In trying to gauge prospects for the acceleration of growth under Gorbachev, it must also be considered that the causes of the slowdown have been rather complex. Thus, as still not generally understood, growth in the USSR early on was generated in a quite novel way: predominantly by the expansion of labor and capital inputs and only to a relatively limited extent by increases in their productivity.

True, output per worker rose markedly, but that was due primarily to the economy of labor allowed by the notably rapid expansion of the accumulated capital stock on hand, that expansion being fueled in turn by a sharp increase in the share of new capital investment in the GNP. Output relative to inputs of labor and capital together, or "factor productivity" as it has come to be called, grew only modestly. At comparable development stages, expansion of capital and labor inputs, of course, has also been a significant source of output growth in the West, but the increase in factor productivity has often accounted there for as much as one-half or more of the increase in output.

Even non-specialists will wish to be aware of a related terminological convention. According to a Soviet usage often employed in the West, growth stressing expansion of factor inputs, such as experienced in the USSR, is extensive in nature. Where factor productivity is relatively consequential, as in the West, growth is referred to as intensive.

Table 1 **Economic Growth in the USSR: Soviet Official NMP and CIA GNP (Average annual percentage rates)**

	NMP "produced"	NMP "disposed of"	GNP
1950-60	10.3		5.7
1960-70	7.1	6.5	5.1
1970-75	5.7	5.1	3.7
1975-80	4.3	3.9	2.7
1980-84		3.2	2.6

The difference in growth mechanism is evidently not immaterial. Generated primarily by advances in technology, factor productivity growth involves outlays for R and D, but the resultant costs of additional output are apt to be not nearly as great as those incurred apart from such growth. In the case of capital, it is understood, costs are to be reckoned in terms of not only the new investment required but consumer abstinence.

Such costs had hardly been a deterrent in Stalin's day, but the dictator died on March 5, 1953. If only from a concern for morale and incentives for an in-

Table 2 **USSR Investment Volume and Capital Stock (Average annual rate of growth in percent)**

	Investment volume	Capital stock
1950-60	12.7	9.5
1960-70	6.9	8.0
1970-75	6.9	7.9
1975-80	3.4	6.8
1980-84	3.8	6.3*

*1980-83

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creasingly literate and sophisticated labor force, his successors have felt impelled to ameliorate Stalin's proverbially onerous priorities. Initial Soviet affirmations to that effect, it is worth recalling, were greeted in the West with a certain skepticism. Considering what had gone before, that is understandable, but per capita consumption increased by a very respectable average of 3.4 percent yearly during 1950–81.

Consumer benefits nevertheless have tended to dwindle as output growth slowed, but in seeking such benefits Stalin's successors have had progressively to limit further increases in the share of GNP invested. Although they have carefully avoided cutting the investment share, growth of the volume of new investment has declined to nearly that of the slowing GNP; and with that, growth of the stock of capital on hand has also necessarily fallen (Table 2).

Although not often remarked, the declining growth rate of the accumulated capital stock has itself contributed materially to the slowdown in output growth. With investment volume recently increasing at low rates, growth of the capital stock might be expected in future to slow still more: increase of a stock, as the primers teach, responds only with a lag to varying tempos of a flow.

As a cause of slowing output growth, the decline in that of the capital stock is thus compounding the impact of the lately much-publicized adverse demographic trends, and the resulting retardation of growth in the labor force. Labor force expansion, which proceeded at 1.3 to 1.5 percent yearly during the sixties and seventies, is projected to average half those tempos or less during the eighties and nineties. To make matters worse, such increases as are materializing are restricted largely to peripheral areas (Central Asia, Kazakstan, Transcaucasus). The population there is by all accounts reluctant to migrate to major industrial centers elsewhere.

Paradoxically, output expansion has remained of the costly extensive sort, because factor productivity increases, never very noteworthy, have also declined. Recently, according to careful Western computations, they have been negligible if not actually negative. As a source of productivity increases, limited technological gains have apparently been offset by diminishing returns experienced in energy and other extractive industries.

With deposits approaching exhaustion, costs at older extractive sites have tended to rise markedly. While the Russians have been able to turn to newer sources, these too are frequently costly, if only because of their less favorable location and the resultant transportation and other infrastructure costs. Probably in part because of dubious development policies, the output of oil appears to be in a downtrend, thus confirming tardily the CIA's controversial 1977 forecast. Some three-fifths of the total Soviet oil output now comes from Siberia.

Under programs initiated during the Brezhnev administration, agriculture has for some time been absorbing as much as one-fifth or more of all Soviet investment funds. As the continued large-scale Soviet grain imports might suggest, here too there has been only a limited payoff of late. So much is acknowledged in Soviet discussion.

In brief, for purposes of generating rapid economic advance, the novel extensive growth mechanism that Stalin introduced has apparently lost its prowess, while the Russians seem further than ever from mastering the more conventional intensive growth process familiar in the West.

Will Gorbachev's measures pay off?

To return to Gorbachev, his task of accelerating growth in the present circumstances manifestly cannot be easy. There is the more reason to be skeptical as to what he can accomplish when we consider the measures he is initiating to that end. As Gorbachev himself has made clear, they are mainly intended at long last to make for intensive growth.

Changes, for example, are avowedly being made in planning arrangements to facilitate the introduction of advanced technologies. But these shifts are to be of a "within-system" sort, and often such as have been initiated previously and found difficult to implement or have proven otherwise to have little effect. Among them are: limited reduction of centrally controlled performance indices for the enterprise; expansion of the system of research-production associations initiated more than a decade ago; formation of inter-branch administrative entities, and restricted changes in price fixing. The incredibly bureaucratic system of centralist planning inherited from Stalin, which according to voluminous Western research is peculiarly inhospitable to technological innovation, is evidently to remain substantially intact.

Probably more significant than such organizational shifts is Gorbachev's call for a sharp increase (by 50–100 percent) in the growth rate of machinery output, together with a doubling of asset retirement rates. The resultant speed-up of replacement of obsolescent Soviet technologies should be to the good. But, even on Gorbachev's supposition that replacement investment is twice as productive as that entailing new construction, such shifts probably could do little more than forestall further declines in output growth arising from the falling tempo of increases in the capital stock.

As Gorbachev does not pause to clarify, the envisaged step-up in machinery output growth could very possibly result in an increase, if only a limited one, in the investment share of the GNP. With that, consumption gains could dwindle still more than they have of late. Consumption standards are far above the abysmal

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levels that prevailed under Stalin, but Soviet scholars have held that labor incentives and effort are impaired by insufficient supplies of superior goods. Workers reportedly are reluctant to exert themselves to earn extra rubles when there is often little of value to spend them on.

The stress on "exactingness"

In his appearances before the Party, Gorbachev has expatiated more than once on the "human factor" on which the success of his program must depend. "Exactingness" is declaredly now to be the standard of performance for not only ordinary citizens but officials at all levels, and heads are already rolling as a result. Although it has not always been made explicit, insufficient "exactingness" is clearly one of the reasons why, for example, seven all-union economic ministries have acquired new chiefs since Gorbachev came to power. The economy could get something of a lift from such a personnel policy. It possibly was in the process of doing so from a similar one pursued during Y. V. Andropov's brief tenure.

Under Soviet conditions, if "exactingness" is not always achieved, not the least of the reasons is apparently the well-known Russian proclivity to imbibe alcohol excessively and often inopportunely. Here too Gorbachev is continuing where Andropov left off, but it remains to be seen what will be achieved by his new measures, which include stiffer penalties for inebriation, restrictions on retail and restaurant liquor sales hours, and the like. One predictable, though not exactly helpful result, is unusually lengthy queues at liquor stores.

With agriculture performing so sluggishly, the government has found it expedient in the last years to liberalize somewhat constraints on activities of the tiny but productive farm plots that collective and state farm workers have long been allowed to operate privately. Under a sort of putting-out system, for example, farm households may contract to raise livestock on behalf of collective and state farms. Private enterprise has also received a modest boost recently from other developments, some of a semi-legal nature, such as private group construction teams and itinerant seasonal worker brigades. Before becoming General Secretary, Gorbachev had supervised agriculture generally on behalf of the Party, but had identified himself particularly with the so-called "brigade contract system." Allowing a modicum of decentralization within the collective and state farms, that scheme is already employed on some scale. Gorbachev has also called emphatically for improved management of the vertically integrated agro-industrial complex that is now widely prevalent.

According to the CIA, the USSR is currently devoting as much as 13–14 percent of its GNP to defense. That is an onerous burden, and Gorbachev would no doubt find his task of accelerating economic growth distinctly easier if he could cut such outlays. He has declared again and again his interest in "halting the arms race," and the latest Soviet arms control proposal apparently gives some substance to such avowals. But the Soviet armed forces should find reassuring his further affirmation that "in the face of imperialism's aggressive policy and threats, we must not permit it to gain military superiority over us."

Indeed, that imperative, as Gorbachev makes clear, is a principal reason why economic growth must be accelerated. But, as he is manifestly also aware, the current pedestrian economic performance of the USSR is hardly in conformity with familiar Soviet ideological presuppositions. He is not simply indulging in hyperbole in holding a growth speed-up to be of "paramount political, economic and social importance."

In pursuing such acceleration, however, he may well have to go beyond the cautious program he has so far projected. As *Pravda* editorialists have recently seen fit to remind their readers, public ownershp and centralist planning continue to be viewed officially as integral to Marxism-Leninism. Nevertheless, perhaps Gorbachev even so will be induced to turn to some radical planning reform such as many Western observers have long believed necessary. If so, success is probably not as assured as often supposed, but that is a matter best explored if and when the reform materializes.

This article was first published in the November-December issue of Challenge magazine and is reprinted here with the permission of the author.

SEASONS

GREETINGS !!!!!!!

Gorbachev May Be Unequal to Task

By MARSHALL I. GOLDMAN

Not since Lenin has the Soviet Union had such a politically powerful and adroit leader as Mikhail S. Gorbachev. Even Stalin required several years before he could remove his opponents.

In contrast, Gorbachev purged his chief opponent, Grigori V. Romanov, after only three months and then Nikolai A. Tikhonov, the aging prime minister, in six months. Unlike Nikita S. Khrushchev, who had to share power for a time with Nikolai Bulganin, and Leonid I. Brezhnev, who initially did the same with Alexei N. Kosygin, Gorbachev has been his own man, enunciating both domestic and foreign policy without deferring to notes or subordinates for support.

As powerful as he may be, Gorbachev may nonetheless prove unequal to the task that he has set for himself—the reform of the Soviet economy. It is not that the Soviet economy is on the verge of collapse. The Soviet gross national product continues to increase. But industry's production is wasteful and inefficient, there have been seven poor harvests in a row and, most important, the Soviet civilian economy has been unable to master the new high technology that is associated with computers, computer-aided design and manufacturing, microprocessors, fiber optics and biotechnology. Anti-alcohol and discipline campaigns that were begun by Yuri V. Andropov, Gorbachev's mentor, helped somewhat—but only with the existing, not the new, technologies. Nor is there much to indicate that the gap between Soviet and Western technology is shrinking. In most fields the gap seems to be widening.

Even the military has become concerned. In a revealing interview last year, Gen. Nikolai V. Ogarkov, the former chief of staff, pointedly noted that the Soviet Union had fallen behind in conventional weaponry. What particularly troubled him was that, because of the United States' mastery of the new technology, this country's conventional weaponry had become as destructive as "the ultimate weapon"—nuclear warfare. While this overly candid warning probably contributed to his dismissal, it is a concern that Gorbachev now seems to share.

The careful look at Gorbachev's behavior within the Soviet Union suggests that his determination to reform the economy is important to him—as much as, or more than, the approaching Geneva summit meeting. This is not to downplay the significance of the summit. Yet it almost seems that the summit is Act I of a two-act play. Clearly Gorbachev places great importance on putting a halt to the arms race, if for no other reason than to avoid having to give his generals even more funds and to prevent the United States from embarking on another technological breakthrough that would put the Soviet Union even further behind.

But to Gorbachev, Act II, in many respects the climactic act, is the Communist Party Congress scheduled for late February, 1986. Held every five years, next year's congress is scheduled to approve the new Soviet five-year plan and, more important, to approve the economic and political innovations that Gorbachev feels he must make if he is to modernize the Soviet economy. To whip up support, Gorbachev has emerged from the traditional protection of the Kremlin to visit key production centers all over the country, from the oil and gas fields of Siberia to the virgin farmlands of Kazakhstan. At each stop he expounds at great length, as only Soviet leaders can do, about the country's economic needs and the necessity for hard and more efficient work.

Not since Khrushchev has a Soviet leader spent so much time meeting officials and working outside Moscow. This has been good for Soviet morale, but neither Gorbachev's Ilyushin-hopping nor his political shuffling is likely to bring the revitalization that he seeks. For that he needs a radical revamping of the economy, including the abolition of central planning. Cosmetic reform will not suffice. Central planning may have worked well in the days of smokestack industry, but it is unequipped to deal with high technology, where products have a life cycle of only two to three years.

Gorbachev is no fool. He knows that Soviet bureaucrats are so entrenched, and that the Soviet central planning system has been in place for so long, that structural change will not be warmly received. Thus his ability to reshape the Soviet Union's economy depends in part on developing a dynamic sense of change and accomplishment. Each small victory that he wins will presumably make it easier for him to tackle the ultimate challenge: the Soviet economy.

That explains his visits and his exhortations. It also explains his decision to meet with President Reagan, despite what Soviet officials candidly regard as Reagan's inflexibility and insistence on the Strategic Defense Initiative. Nothing would help Gorbachev more than to return to Moscow having shown that he is a match for Reagan.

But as skilled and powerful as he is, Gorbachev is likely to find that the Soviet economy is more than a match for even the most adroit leader. In some respects, dealing with Reagan may prove the easier of his two challenges.

Marshall I. Goldman, a professor of economics at Wellesley, is associate director of the Russian Research Center at Harvard University.

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HARVARD

RRC NEWSLETTER

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Volume X, Number 5 January 8, 1986

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Coal(mil.tons)	58.8	663	102
Steel (mil.tons)	13.0	141	99.6
Fertilizer (mil.tons)	2.9	30.2	107
Metal-cutting tools (mil. rubles)	217	2423	112
Robots (1000s)	1.1	13.5	105
Computer Technology (bil. rubles)	0.4	3.8	112
Tractors(mils.)	4.2	48.1	104
Paper (mil. tons)	0.5	5.5	102
Cement (mil. tons)	11.1	120	100.3
Meat(mil. tons)	0.8	9.0	102
Margerine (mil. tons)	0.1	1.3	99
Watches(mils.)	5.3	61.6	100.5
Radios(mils.)	0.7	8.0	94
Television sets (mils.)	0.8	8.5	104
Automobiles (milss.)	0.1	1.2	99.9

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST 11 MONTHS OF 1985

Oil production continues to recover. Comparing November 1985 with November 1984, production is down just about 1%. That continues to be an improvement not only from October but particularly from the earlier months of 1985. For the eleven month period as a whole, production is down 3%. It still seems reasonable to believe that when the figures are out for December, or for January 1986, production will be about equal to what it had been a year earlier. Based on the results so far, it looks like total production for 1985 should amount to something like 595 million tons, a fraction under 12 million barrels a day. While that would represent a drop of approximately 18 million tons from 1984, approximately .4 million barrels a day, that is better than the drop which was anticipated somewhat earlier in the year of 25 million tons which would equal .5 million barrels a day.

As for the other industries, production continues to improve in the coal industry. Comparing November 1985 with November 1984, production was up 3%, whereas for the whole eleven months, the average is up 2%. Similarly, with steel production, production was up 2% although for the whole eleven month period it was down .7% In contrast however, the marginal rate of growth in electricity is somewhat lower than the average. The same thing is true about natural gas production. Nonetheless, neither industry is in trouble.

In sum, Gorbachev's discipline campaign still seems to be working.

CURRENCY FIGURES

Rubles Purchased Per 100	Dec. 1984	Nov. 1985	Dec. 1985
Austrian shilling	3.95	4.23	4.30
U.K. pound	102.33	110.81	109.58
W. German mark	27.68	31.25	30.24
U.S. dollar	85.85	77.71	76.42
French franc	9.03	9.77	9.91
Japanese yen	.348	.382	.381
Italian lira	.0448	.0441	.0447
Swiss franc	33.58	36.31	36.65

No significant changes in the currency figures as of mid-December 1985. The dollar continued its pattern of slight decline which has been evident the last few months. But the amount is minor, moving from 77.71 rubles per 100 dollars to 76.42.

ARDEN HOUSE - THE TENTH ANNUAL CONFERENCE

ARDEN HOUSE SCHEDULE IN THE MAIL

As announced earlier, the program for the tenth annual Harvard-Columbia Arden House Conference on U.S.--Soviet Affairs is near completion. We have already received an acceptance from Ambassador Arthur Hartman in Moscow to be the keynote speaker on March 21st. Deputy Assistant Secretary of State Mark Palmer and National Security Council Advisor Jack Matlock have also indicated that they also expect to participate. The Congressional panel will include Senator Paul Simon, Senator Paul Sarbanes and Representative David McCurdy. At least two other Senators have indicated tenatively that they may be able to attend.

After the recent meetings in Geneva, it should be particularly interesting to hear what took place from those who were involved in the discussions. So, please mark your calendars on March 21st to the 23rd for Arden House. The first draft of the program and an application form are in the mail. If you do not receive one in two weeks, please let us know. Also, please spread the word about the conference to any of your colleagues who you think might be interested in attending.

SECOND CORPORATE SPONSOR PROGRAM

The next Corporate Sponsor Program will focus on relations between the German Democratic Republic (East Germany) and the Soviet Union. The conference will be held Monday, February 10, 1986 at the Harvard Faculty Club here in Cambridge. It is being organized by Norman Naimark and promises to provide us an interesting look at German-Soviet relations. A copy of the final program and an enrollment form are enclosed. There are additions to the program that was sent out last year. Two new speakers have been added, John Kiser and Steven Larrabee. Please respond soon if you would like to attend the conference.

LIVESTOCK HERDS (Millions)

	12/1/84	12/1/85	11/1/85 as % of 11/1/84	12/1/85 as % of 12/1/85
Cattle	94.6	94.2	99.4	99.5
Cows	29.6	29.2	99.0	98.6
Hogs	60.1	59.1	97.2	98.3
Sheep & Goats	115.8	113.5	97.6	98.0
Chickens	737.6	752.6	102.1	102.0

On the whole, Soviet herds continue to be below the levels of a year ago. The number of cows in particular seems to have fallen relatively faster than the other animals. Nonetheless, whether this is because of an intentional desire to produce fewer but fatter cows is still unclear but given the fact that meat production is still increasing, the Soviets do not seem to have any serious problem although there have been reports in Soviet newspapers about poor distribution practices making it difficult to get the meat that has been produced out on the shelves.

THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Gary Eynatian. RRC @ 1986

LETTER TO THE EDITOR

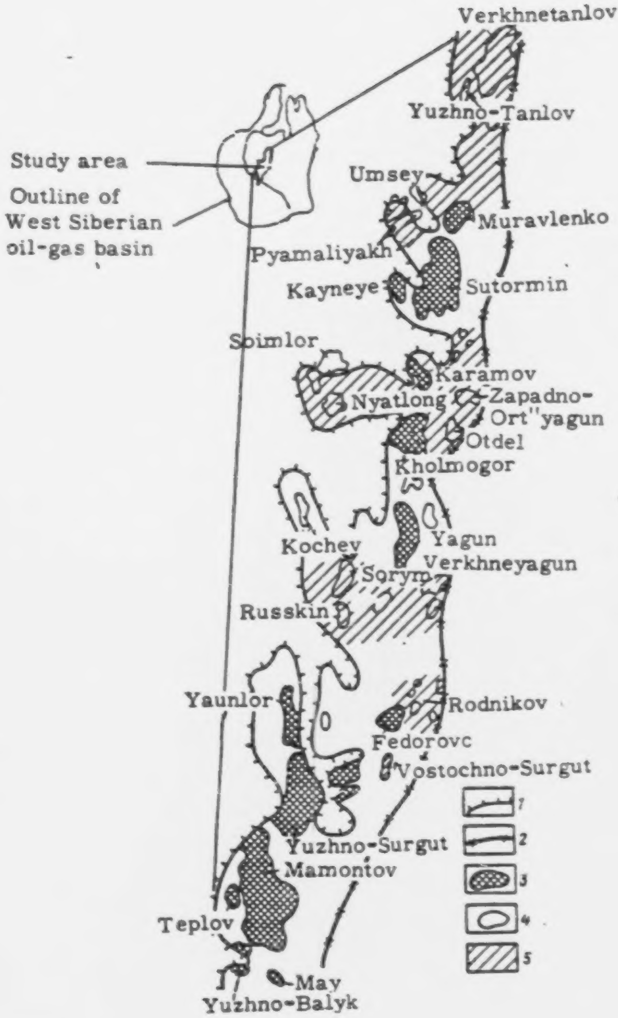
Dear Marshall:

The question is often asked: How can the Soviets continue to find new oil in order to maintain a satisfactory reserves-to-production ratio? A recent article in Geologiya Nefti i Gaza (No. 4, 1985), entitled "Prospects for oil and gas in the Neocomian sediments of the Tyumen Region," by I.I. Nesterov and others, suggests where these reserves are to be found. They write that the potential of this region is far from exhausted. The most favorable area for new finds is a belt 30 to 80 km wide that extends 300 km in a north-northeast direction from Mamontor field on the south to Muravlenko field on the north (see map). Now the map shows only those pools in Lower Cretaceous pay zone BS10. There are 16 pay zones in the Lower Cretaceous as well as additional ones in the Jurassic. The significant information in the article, however, is the area on the map with diagonal-ruled lines. This is where the new oil is expected to be found in horizon BS10. Prospects are similar for the other pay zones as well. Only time will tell whether such fields as Surtomin and Kholmogor will rival Samotlor in reserves.

Sincerely,

James W. Clarke
Geologist
World Energy Program
United States Dept. of
the Interior
Geological Survey

-enclosed map reproduced on the-
-following page-


Verkhnetanlov
Yuzhno-Tanlov
Study area
Outline of West Siberian oil-gas basin
Umsey
Muravlenko
Pyamaliyakh
Kayneye
Sutormin
Sbimlor
Karamov
Nyatlong
Zapadno-Ort"yagun
Otdel
Kholmogor
Yagun
Kochev
Verkhneyagun
Sorym
Russkin
Yaunlor
Rodnikov
Fedorovc
Vostochno-Surgut
Yuzhno-Surgut
Mamontov
Teplov
May
Yuzhno-Balyk
1
2
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Oil-gas map of pay zone BS_{10} of West Siberian basin.

1-Boundary of lithologic seal; 2-boundary where seal becomes sandy; 3- oil and gas pools; 4-favorable traps for oil and gas; 5-areas of prime importance for oil exploration.

Myths That Drive the Arms Race

FRANKLYN D. HOLZMAN

Many thoughtful observers in America believe that the military might of the Warsaw Pact nations, especially the Soviet Union, has been increasing relative to that of the NATO nations, especially the United States—and that, as a result, the Warsaw Pact has achieved military parity or pushed ahead of NATO. This build-up, moreover, is taken as *prima facie* evidence that the Warsaw Pact nations have aggressive intentions toward their neighbors.

What explains such a momentous shift in the arms race? The usual answer is that the Soviet Union has increased military spending more than the United States has. To reverse this dangerous trend, naturally, the United States and its allies have been planning similar increases. As Ronald Reagan put it in his State of the Union message on February 18, 1981, "I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970, the Soviet Union has invested $300 billion more in its military forces than we have." In the two and a half years since that address, the President's apprehensions about Soviet aggressiveness have been reflected in the sharp rise in our military spending and in a steady deterioration of relations in practically every area in which the two nations interact.

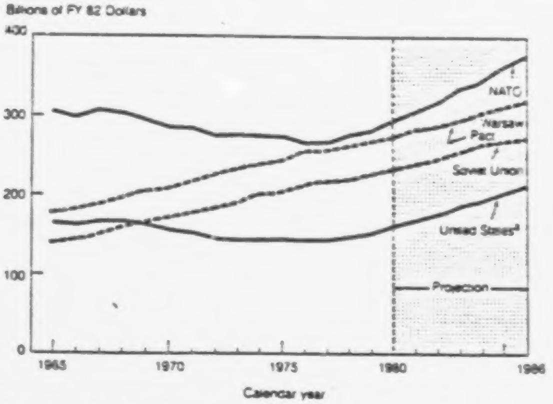
But there is considerable evidence that U.S. estimates of Soviet and Warsaw Pact military expenditures are incorrectly calculated and misleadingly presented. With proper calculation and interpretation, the spending gaps that favor the Soviet bloc largely disappear. This calls into question the magnitude of the Soviet bloc's military build-up and weakens the Administration's claims that the build-up is necessarily offensive rather than defensive.

Deducting the Chinese front

Several factors help to explain what may be a distorted view of Soviet-bloc military spending. Perhaps most important is the tendency of bureaucrats, politicians, and the press to summarize complicated computations with a few simple figures. Two such figures are the CIA's annual estimates, widely quoted, that the USSR is currently outspending the United States on defense by 50 percent, and that over the decade 1971-1980 it outspent us by $420 billion (an update of President Reagan's $300 billion).

Once these figures surface, they begin to have a life of their own; rarely mentioned are the numerous qualifications attached to them by the CIA when they were first released. While the two figures presented may be valid for some purposes, for others they are misleading and inappropriate. Suppose, for example, we want a figure that represents the confrontation between the United States and the USSR. This is the way President Reagan used the $300-billion figure in his State of the Union address. For that purpose, the 50 percent and $420-billion figures are inappropriate, because a large part of Soviet military spending is irrelevant to the superpower confrontation. For example, the Soviet Union maintains an army of roughly 750,000 men on its border with China. According to the 1979 annual report of then Defense Secretary Harold Brown, the Soviets "have felt obliged to allocate up to about 20 percent of their total defense effort to the Far East and the PRC [People's Republic of China]."

Figure 1 NATO and Warsaw Pact Total Defense Costs



[a]Southeast Asia increment excluded (i.e., Vietnam costs)

Source: Department of Defense, *Annual Report*, Fiscal Year 1982.

Money spent by the Soviet Union to support a large army across 5,000 miles of inhospitable terrain has thus not been available to build tanks, planes, and missiles that might be used against the United States and NATO. If 15 percent of Soviet expenditures is subtracted from the total (the other 5 percent is taken to represent Soviet expenditures easily switchable to the West plus U.S. expenditures designed for other theaters), the current gap is reduced from 50 percent to 27.5 percent and the 1971-80 expenditure gap is reduced by $230 billion—that is, from $420 billion to $190 billion (all in 1979 dollars).

Thus, removing expenditures directed at China roughly halves both the current and the ten-year spending gaps. The Department of Defense's practice of excluding U.S. expenditures on Vietnam when comparing NATO and Warsaw Pact total defense costs (see footnote to chart) supports the appropriateness of removing these expenditures.

The allies' contributions

Finding a true estimate of the gap between Warsaw Pact and NATO "confrontation" spending requires another major adjustment. The CIA restricts its published estimates to comparisons of military spending by the United States and the USSR. This establishes a framework for virtually all government and media discussions of military spending. In effect, these discussions imply that the United States and the USSR confront each other without allies. If the contributions of the other NATO and Warsaw Pact nations were either inconsequential or of roughly equal magnitude, this sort of calculation would make sense. However, as Harold Brown put it in the same annual report, "We are fortunate in having prosperous and willing allies who can help counterbalance the Soviet effort. The Soviets are not so fortunate." According to the authoritative International Institute of Strategic Services in London, America's NATO allies spent $94.9 billion in 1980, or almost six times more than the $16.7 billion spent by Warsaw Pact nations other than the Soviet Union. In fact, France, Great Britain, and West Germany *each* spent more than all the Soviet Union's Warsaw Pact allies added together.

If contributions by our allies and the Soviet Union's allies are factored in, the imbalance between NATO and Warsaw Pact military spending is sharply reversed. As of 1980, NATO was still outspending the Warsaw Pact—over the decade, by more than $250 billion, despite the huge USSR-U.S. dollar gap calculated by the CIA (see chart). The $250-billion difference in NATO's favor makes no correction for Soviet expenditures directed at China. If we take into account the $230 billion that the Soviets are estimated to have directed at China, the total difference in military spending between NATO and the Warsaw Pact nations rises to $480 billion.

The problem of dollar values

Another major distortion in comparisons of East-West military spending stems from the practice of relying on dollar valuations to compare the two defense establishments. As the CIA acknowledges: "Dollar cost calculations tend to overstate Soviet defense activities relative to those of the United States. . . . Given different resource endowments and technologies, countries tend to use more of the resources that are relatively cheap—and less of those that are relatively expensive—for a given purpose. A comparison drawn in terms of the prices of one country thus tends to overstate the relative value of the activities of the other."

This so-called index-number effect is not hard to understand. The Soviets pay their soldiers a very low wage and, perhaps partly for this reason, have more than twice as many men and women in uniform as we do. When we value their 4.5 million military personnel on the basis of *our* average annual pay, which is close to $20,000, the result is a very high estimate of Soviet spending. The *reductio ad absurdum* of this methodology is the recently revealed (though unofficial) CIA estimate of Chinese military spending in dollars, which purports to show that the Chinese government is currently mounting a defense effort equal to our own. This bizarre conclusion arises from a calculation of the cost of mobilizing the enormous Chinese army at near U.S. pay scales.

The usual, and proper, procedure when comparing real costs in two different monetary systems is to calculate expenditures in the currencies of both nations, in this case in rubles as well as in dollars. The dollar estimate provides an upper limit of Soviet expenditures, the ruble estimate a lower limit (since it exaggerates U.S. expenditures by putting a very high ruble price on our more advanced military technology). An average of the two, usually a geometric mean, can be calculated if one wants a single figure. In most of its other U.S.-USSR comparisons, the CIA follows this procedure.

The CIA currently makes defense estimates in both dollars and rubles. However, the ruble comparison, once presented, is ignored, and the geometric mean is not presented at all. The reason for this practice is not difficult to discern: until a few years ago, the agency did not know the costs in rubles for many Soviet weapons or other defense matériel. The CIA now claims to have many more prices, and should, therefore, be able to present the geometric means of the dollar and ruble comparisons as the official estimate. Since the dollar comparison shows the Soviets outspending us by 50 percent and the ruble comparison reduces the difference to 30 percent, the geometric mean works out to 39.6 percent. If this change is combined with an adjustment for forces on the Chinese border, the current difference between U.S. and Soviet "confrontation" spending shrinks to below 20 percent, and the ten-year gap between U.S. and Soviet military spending is reduced to below $100 billion (from $420 billion). It also widens the NATO-Warsaw Pact ten-year gap to roughly $550 billion, *in our favor*.

One more adjustment affects the figures: on September 20, 1983, at a Joint Economic Committee hearing, the CIA revised its estimate of the growth of Soviet military spending since 1976 from 4-5 percent per year to "about 2 percent" in light of the fact that ". . . procurement of military hardware—the largest category of [Soviet] defense spending—was almost flat in 1976-81," a trend which is "continuing." This reduces the USSR-U.S. ten-year spending gap by perhaps another $30 billion as of 1980 and $50 billion by 1982; reduces the 1982 gap by another 5 percent (by CIA estimate and after accounting for the rise in U.S. expenditures); and increases the NATO-Warsaw Pact gap by corresponding amounts. It also reduces one's confidence in the U.S. intelligence community's ability to estimate Soviet hardware expenditures.

Before we leave index numbers, two more points need to be clarified. First, American advocates of larger military appropriations for equipment procurement point out that the Soviet equipment build-up is made possible by the very low wages the USSR pays its soldiers. As William Perry, former Undersecretary of Defense for research and engineering, put it in a 1982 review of James Fallows's book *National Defense*, "they can devote half of their budget to equipment procurement while we devote less than a quarter of ours to equipment . . .". While Dr. Perry's statement is true as far as it goes, it neglects the fact, as put by Stansfield Turner, a former director of the CIA, that "military hardware is much more expensive than manpower in the Soviet Union, while in the United States manpower is relatively more expensive than hardware . . .". So, the Russians need to spend a greater percentage of their military budget on equipment; we need to spend a greater percentage on manpower.

Second, if Soviet military expenditures *vis-à-vis* the United States are exaggerated, U.S. estimates of the percentage of Soviet gross national product devoted to those expenditures (ME/GNP) are also likely to be exaggerated. This is true for at least two reasons. Using the American definition of defense expenditures, the CIA estimated ME/GNP to have been 11-12 percent from 1970 to 1979, 12-13 percent in 1980 and 13-13.5 percent in 1982, the figure presented to the Joint Economic Committee on September 20, 1983. In presenting this figure, the CIA apparently continued to extrapolate ME at 4-5 percent rather than at the lower 2 percent growth rate. Extrapolating at 2 percent results in an ME/GNP of 10.8-11.8 percent for both 1980 and 1982.

The second factor exaggerating ME/GNP relates to price weights. The proper way to measure Soviet military expenditures in relation to GNP for 1982 would be to value both in 1982 rubles. Unfortunately, the most recent set of ruble prices for military equipment available to our intelligence establishment is for 1970. So, for lack of a better alternative, the CIA is forced to measure Soviet military expenditures and GNP for the years since 1970 in so-called "constant 1970 ruble prices."

If trends in ruble prices of military equipment were representative of GNP as a whole, then it would not make much difference whether 1970 or 1982 prices were used in the estimate. In fact, however, because of rapid technological advances in Soviet weaponry, the price of any given weapon capability over the 1970-1982 period must have fallen relative to Soviet prices in general. In this respect, Soviet weapons are like American computers, whose prices have dropped enormously over the past decade despite inflation in the rest of the economy. The more advanced military equipment being produced for Soviet armed forces today would have cost many times more rubles to produce in 1970 than at present. So, the CIA estimate for 1982 of 13-13.5 percent, revised downward by us to 10.8-11.8 percent, both in 1970 prices, are certainly exaggerations; each would undoubtedly be a few points lower if recalculated in 1982 ruble prices. This is still a higher percentage than the U.S. figure of approximately 6.5-7 percent, but it is not twice as high, as the official figure shows—and, it must be remembered, Soviet GNP is slightly less than two-thirds of ours.

Beyond the spending-gap issue

The view of the military spending gap just outlined appears to be greatly at odds with the conventional wisdom that the USSR and its allies have been engaged in an enormous military build-up that has enabled them to reduce or eliminate NATO military superiority, and that this has been accomplished by virtue of increased defense expenditures. If the facts reveal no military spending gap in favor of the Warsaw Pact countries, how can this be reconciled with the Soviet bloc's alleged military build-up?

First, perhaps the military build-up, and the degree to which the Soviets have caught up with us, have been exaggerated. A military effort has many dimensions, and those who sound dire warnings tend to concentrate their attention on areas in which Soviet progress has been most rapid. Further, the emphasis is usually on numbers—quantity rather than quality. Some experts have testified that the U.S. defense effort represents, in part, a sacrifice of quantity for quality. This view was recently echoed by a CIA spokesman before the Senate Armed Services Committee. He stated that U.S. military equipment tends to be produced with "more sophistication, more quality, and better performance . . . [more safety], more quality control . . . a more highly designed product" than Soviet equipment. Apparently General John W. Vessey, Jr., Chairman of the Joint Chiefs of Staff, feels that this is a good thing. On May 11, 1982, after admitting that the Soviets had a quantitative superiority in many weapons, he testified to the Senate Armed Services Committee: "But, overall, would I trade with [Soviet Chief of Staff] Marshal Ogarkov? Not on your life."

Listening to the pessimists, one would never know that the United States spends almost three times as much as the Russians per soldier in training and maneuvers, or that our missiles are more accurate, or that our subs are superior to theirs, and so forth. One cannot doubt that the Soviets have been catching up, but the degree to which this is true may well have been overstated.

Second, if the Soviets have been catching up, how has this been possible if, as has been shown, the actual military-spending gap is much smaller than official estimates suggest? Military-expenditure comparisons measure cost, but not effectiveness or the wisdom of the expenditure choices. If the United States has been spending money less wisely in terms of our needs than the Soviets have in terms of theirs, then the Soviets could catch up without outspending us.

Much has been written in the past few years regarding the waste and the misdirected expenditures in our defense program. Some general categories of wasteful spending often mentioned are so-called gold-plating of weapons (for example, air conditioning and power steering in tanks); introducing some technology that is so complex (and expensive) that it can be neither easily operated nor properly maintained; introducing too many competing models and changing models too often, both of which prevent reduction of costs; allowing weapons suppliers very high profits and cost overruns not caused by inflation; and maintaining facilities and programs that no longer serve a military function but are good for some Congressman's constituency. Further evidence of inefficiency may be adduced from the fact that the balance of forces in Europe does not appear to reflect NATO's much higher levels of military spending.

What are the policy implications of all this? If the view of the military-spending gaps presented here is correct, the USSR is not way ahead of the United States as the Reagan Administration and others contend. (And NATO spending is far ahead of the Warsaw Pact's.) Moreover, if the USSR is catching up owing to waste and inefficiency on our part, it hardly makes sense to throw hundreds more billions of dollars into defense, at the expense of so many of this nation's major civilian priorities, without drastic revision of the military decision-making processes. Preventing the waste of $50 billion in cost overruns, misguided programs, and the like is as good a way to finance our military build-up as legislating $50 billion in new taxes or accepting a $50 billion increase in the national debt.

Finally, while many in this country view the Soviet Union and its allies as outspending us on defense, the Soviet Union probably views the spending competition in the terms just outlined—that is to say, as unfavorable to itself and its allies. If that is the Soviet view—and, in fact, the USSR sees itself as having to take on almost singlehandedly the whole Western industrial world, plus China and Japan—then the motivations behind its build-up may well be less ominous than the Administration believes.

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Franklyn D. Holzman is Professor of Economics at Tufts University and a Research Associate at the Harvard University Russian Research Center.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Volume X, Number 6

February 8, 1986

INDUSTRIAL PRODUCTION FIGURES

Product	Jan-Dec 1985	% 1985 over 1984
Electricity (bil.kw.hrs)	1545	104
Petroleum (inc. gas condensate) (mil.tons)	595	97
Natural Gas (bil.cu.mtrs)	643	109
Coal(mil.tons)	726	102
Steel (mil.tons)	155	100.2
Fertilizer (mil.tons)	33.2	108
Metal-cutting tools (mil. rubles)	2674	112
Robots (1000s)	15.2	107
Computer Technology (bil. rubles)	4.2	113
Tractors (mils.)	52.8	104
Paper (mil. tons)	6.0	102
Cement (mil. tons)	131	100.7
Meat(mil. tons)	17.1	100.6
Margerine (1000 tons)	1.4	100
Watches(mils.)	67.2	100.2
Radios(mils.)	8.8	94
Television sets (mils.)	9.4	104
Automobiles (1000s)	1.3	100.4

YEAR END PRODUCTION RESULTS

The year end results as we have been saying for the last several months do show some improvements since Gorbachev assumed control. Again the main focus is on the petroleum industry. As we predicted in the January newsletter, oil production reached 595 million tons. That is 18 million tons what it was in 1984, but the rate of decline is only 3% not the 4% that it had been before. Moreover production in December was down only 2% or less. Because the Russians do not publish the exact figure for December, we have to estimate it and given the rounding of figures that takes place, it is difficult to be precise.

While production for oil does seem to have improved in recent months, the fact remains that the Soviet leadership is still quite displeased and this helps to account for some of the very critical articles that have appeared in the Soviet press recently. Other figures presented in the final report for 1985 suggest that the oil figure plans were only 96% completed. Particularly distressing is the fact that labor productivity was only 94% of what it was expected it would be. It is reasonable to assume that there will be more personnel changes in the petroleum industry.

In other industrial sectors, production also has improved recently. Unlike last year for example, coal production increased whereas in 1984 there was a slight drop.

CURRENCY FIGURES

Rubles Purchased Per 100	Jan 1985	Dec 1985	Jan. 1986
Austrian shilling	3.95	4.30	4.36
U.K. pound	99.38	109.58	109.15
W. German mark	27.81	30.24	30.65
U.S. dollar	87.95	76.42	75.85
French franc	9.08	9.91	10.00
Japanese yen	.346	.381	.375
Italian lira	.0452	.0447	.0449
Swiss franc	33.13	36.65	36.40

Continuing the trend of the last several months the dollar declined, dropping from 76.42 to 75.85. The West German mark appears to be gaining strength, now purchasing 30.65 rubles per 100 marks. A slight decline is apparent in the U.K. pound and the Swiss franc.

LIVESTOCK HERDS (Millions)

	Jan 1985	Jan 1986
Cattle	121.0	120.7
Cows	43.6	42.8
Hogs	77.9	77.6
Sheep & Goats	149.2	146.5

As the table indicates, there was a drop in all livestock herds. This is the first time that has happened in some time. While some of the herds have been dropping, this has been offset by the fact that some of the others have been increasing. Now there was as drop in every single category. At the same time however official statistics indicate that the government purchased larger quantities of livestock products in 1985 than it had in 1984. This is also reflected in the increased sales of meat and other products. However a recent visit to the Soviet Union indicates that meat supplies are still in short supply and this is further confirmed by the speech of the poet Yevtushenko in which he refers to the fact that meat products are still rationed in many Soviet cities.

ARDEN HOUSE - THE TENTH ANNUAL CONFERENCE

The program for the Arden Conference on East-West Relations was sent out to the subscribers of this newsleter a few weeks ago. If for some reason you haven't received your invitation yet, please let us know and we will send out another copy. We enclose in this newsletter only the application form for Arden House.

We are pleased to announce an addition to the program. Congressman Dante Fascell, the Chairman of the House Committee on Foreign Affairs has indicated he will also attend the conference and participate in the congressional panel. Immediately following the conference his tentative plans call for a visit to the Soviet Union to meet with senior Soviet government officials.

Given the interest in current developments in the Soviet Union and the Party Congress, not to mention the forthcoming summit meeting, we are experiencing a good registration and for those of you who have not yet sent in your application, you should do so soon.

THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed.

RRC @ 1986

U.S.-Soviet Trade Expectations Fade

What a difference a year makes, particularly in U.S.-Soviet relations. A year ago many thoughtful Soviet intellectuals were actually worried that the arms race might lead to war. Now, after two formal summit-level meetings in Geneva, both sides are speaking of cooperative agreements. Even arms control no longer looks like an impossibility.

But we should not exaggerate. Unlike the 1970s, what we have so far is more like a dent—not detente—and expectations are more subdued if not more realistic. In part this is a natural reaction to the over-optimism of the 1970s.

A good example of this more subdued stance is the way U.S.-Soviet trade is being treated this time around. At the 1972 Nixon-Brezhnev summit, trade was a major agenda item, and predictions of agreements and billion-dollar contracts flowed readily from both Moscow and Washington; this time trade seems to be more an afterthought from the Reagan-Gorbachev meeting. As with human rights, the casual reader has to search for mentions of trade in the reports from Geneva. Unlike fusion research or chemical weapons, trade is not even given its own paragraph in the formal communique. In fact, the only mention of trade is in a five-paragraph section headed "Process of Dialogue," and then it is included almost as a postscript.

While this de-emphasis is probably the conscious effort of Reagan Administration opponents to Soviet trade, there are signs that U.S. businessmen and Soviet leaders have lowered their expectations. After all, American companies will not soon forget the millions of dollars that several of them spent on plans and contract bidding and projects in the Soviet Union that were aborted after the invasion of Afghanistan. The resulting scars explain as much as anything does why last month's U.S.-Soviet trade and economic council meetings in Moscow attracted fewer senior chief executive officers than similar but more ebullient meetings did in the 1970s.

In his comments, Mikhail S. Gorbachev seemed as subdued as the American businessmen. While he spoke encouragingly of U.S.-Soviet trade, going so far as to arrange for his speech to be televised to the Soviet public, he also underplayed the volume of that trade. By stressing U.S. imports of the Soviet Union's goods, where we rank 13th among its hard-currency trading partners, rather than U.S. exports to the Soviet Union, where we are first or second, he may have been trying to suggest how much room there was to expand. Yet when he pointed to specific products that the Soviet Union might buy from the United States, he generally confined his list to machines for industry such as agribusiness, petrochemicals, chemicals, energy and the machine-tool industry itself. For the most part these would be low-technology exports, many of which even the Pentagon might tolerate.

On the Soviet side, this new realism partly reflects Gorbachev's leadership style, which is less bombastic and more attuned to the limitations of the Soviet economic system. Soviet authorities have come to recognize that imported technology has not been, and probably will not be, the solution to all their problems—at least as long as there is no reform of their economic system. At a minimum, Gorbachev has come to realize that he needs some new faces. That explains the widely reported purges in Soviet industrial ministries. Now it is rumored that as many as 200 officials in Soviet foreign-trade offices have been arrested on charges of corruption, and at least two—the chairman and the deputy of Technopromexport—have been sentenced to death.

But, for all his domestic efforts, Gorbachev seems to realize that before there can be any meaningful improvement in U.S. trade the Soviet Union must improve its treatment of dissidents and refuseniks. Only then will the United States move to relax some of the restraints that it imposes on imports from and exports to the Soviets.

Admittedly the initial efforts to reach accommodation predate Gorbachev, but he has continued the effort even if at a cautious pace. That accounts for the release of Yelena Bonner and about a dozen spouses of U.S. citizens and some long-term Jewish refuseniks. It also explains the various continuing meetings between Soviet officials and Jewish leaders in New York, Moscow and Paris, as well as the hints about the even larger-scale emigration in 1986 and the possible restoration of diplomatic recognition between the Soviet Union and Israel. It also accounts for the decision to allow each leader to address the other's country via television, and the somewhat more conciliatory tone coming out of at least some Washington offices.

It may be that we do occasionally learn from history. Unlike the euphoric 1970s, when visions of hundreds of millions of dollars in trade deals danced in our heads and trade was viewed as a means or linkage to improve political relations, today trade seems to be the end or reward for improved political relations. Given how controversial U.S. trade with the Soviet Union can be, this seems to be the more realistic and ultimately more fruitful way.

From the L.A. Times
1/7/86.

Marshall I. Goldman

01/15/86
17:24:31

All items in U.S. imports for consumption from USSR, 1982, 1983, 1984, January-November 1984, and January-November 1985

(C.i.f. value, in thousands of dollars)

SITC Number	Description	1982	1983	1984	January-November--	
					1984	1985
0	Food & live animals-------------	5,413	18,054	17,415	17,243	11,921
1	Beverages & tobacco-------------	11,000	12,923	9,997	8,772	10,986
2	Crude mat'l--inedible,not fuel--	10,049	12,075	19,353	18,725	13,843
3	Mineral fuels, lubricants, etc--	10,946	59,158	202,563	162,408	106,076
4	Oils & fats--animal & veg prod--	6	1	12	12	44
5	Chemicals-----------------------	131,374	161,121	235,014	209,660	192,362
6	Man'd goods by chief material---	63,349	91,304	107,794	98,850	62,281
7	Machinery & transport equip-----	1,624	3,750	2,874	2,467	3,969
8	Miscellaneous man'd articles----	9,156	6,381	4,566	4,400	3,428
9	Commodities & transactions nec--	5,277	2,341	2,494	2,397	3,587
	Total---------------------------	248,195	367,107	602,081	524,933	408,496
	Total, all items imported from USSR----------------	248,195	367,107	602,081	524,933	408,496

Source: Compiled from official statistics of the U.S. Department of Commerce.

01/15/86
17:28:12

All items in U.S. domestic exports to USSR, 1982, 1983, 1984, January-November 1984, and January-November 1985

(F.a.s. value, in thousands of dollars)

SITC Number	Description	1982	1983	1984	January-November--	
					1984	1985
0	Food & live animals-------------	1,642,161	1,194,970	2,585,083	2,207,671	1,580,009
1	Beverages & tobacco-------------	2,979	874	1,264	1,264	7,975
2	Crude mat'l--inedible,not fuel--	214,249	264,583	224,263	220,395	86,916
3	Mineral fuels, lubricants, etc--	90,013	22,571	30,045	21,611	52,947
4	Oils & fats--animal & veg prod--	40,565	21,507	38,872	38,872	63,927
5	Chemicals-----------------------	287,846	239,398	208,219	194,676	252,280
6	Man'd goods by chief material---	25,961	29,755	16,573	14,056	9,040
7	Machinery & transport equip-----	225,458	149,452	110,221	97,768	106,821
8	Miscellaneous man'd articles----	59,129	76,422	65,908	57,850	57,308
9	Commodities & transactions nec--	614	2,419	2,205	2,010	1,749
	Total---------------------------	2,588,975	2,001,951	3,282,652	2,856,173	2,218,972
	Total, all items exported to USSR------------------	2,588,975	2,001,951	3,282,652	2,856,173	2,218,972

Source: Compiled from official statistics of the U.S. Department of Commerce.
Note: Trade does not include special category exports.

BALANCE OF TRADE

Balance of Trade for the first nine months of 1985 as indicated by the data in the Balance of Trade table, Soviet exports continue to fall. Since approximately 80% of what the Soviet Union normally exports is petroleum or natural gas, this is another indication that the Soviets have reduced their exports of these products sharply. Exports to the hard currency importers in Western Europe and Japan were down by 2.6 billion rubles for the first nine months of the year. This is a drop of about 20%, which was about equal to how much exports in the third quarter alone dropped. The drop during the first quarter of 1985 was 30%. It fell to only 10% in the second quarter but now is back up to 20%.

Another factor worth noting is that whereas the United States was the largest exporter to the Soviet Union up through the second quarter of 1985, the Soviet Union increased its imports from West Germany more than it increased imports from the United States during the third quarter and consequently West Germany is once again the largest supplier of goods to the Soviet Union, although the Soviets bought somewhat less in 1985 than they did in 1984 and 1983.

The net effect of all this is that the Soviet Union has a trade deficit of about 2.4 billion rubles as of the first three quarters of 1985. That contrasts with the surplus that they had earned during the same period in 1984.

BALANCE OF TRADE - 1st NINE MONTHS OF

1981, 1982, 1983, 1984 & 1985

(Million Rubles)

	Exports from the USSR					Imports to the USSR				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Austria	632	493	413	563	603	362	387	622	656	615
Belgium	350	774	741	902	658	342	421	449	380	425
Great Brit.	515	622	802	974	833	785	531	495	587	563
Greece	448	441	343	416	408	82	100	128	87	104
Denmark	168	268	221	275	213	194	53	54	73	76
Spain	216	106	229	224	148	347	127	182	227	291
Italy	1716	2209	2152	2388	1799	757	874	1119	983	970
Neth.	662	1175	1393	1243	770	385	282	410	188	227
Norway	44	59	59	78	91	73	56	75	60	51
Germany	2501	2982	2498	3478	3026	2099	2201	2685	2558	2400
France	1749	1664	1768	1695	1554	1289	958	1353	1246	1291
Switz.	183	326	394	290	244	390	311	274	293	384
Sweden	182	289	491	441	392	281	283	191	184	240
Japan	589	556	579	633	695	1593	2129	1707	1534	1849
Subtot.	10,000	11,964	12,083	13,600	11,026	8979	8713	9744	9056	9486
Sub-Bal. of Trade						+1021	+3251	+2339	+4544	+1540
Argentina	28	25	19	20	44	2069	1133	1153	983	1114
U.S.A.	105	112	171	210	228	1058	1811	1037	1734	1927
Canada	41	17	22	15	13	892	945	990	971	466
Australia	10	12	5	12	12	461	438	321	365	446
New Zealand	5	5	1	6	3	146	178	145	38	61
Brazil	9	122	85	93	48	523	356	429	396	300
Total	10,198	12,257	12,386	13,956	11,374	14,128	13,574	13,819	13,543	13,800
Balance of Trade						-3930	-1317	-1433	+413	-2426

Soviet and American Television: A Comparison of News Coverage

Ellen Mickiewicz

A crash program in the USSR to produce television sets has brought them into 90 percent of Soviet homes.

The Nieman Foundation and the Russian Research Center at Harvard University presented the program "Preparation for Geneva: Orientation for Journalists Who Want More Information on the Soviet Union." Nearly one hundred newspeople from the Boston area and out-of-state participated in the September day and evening event.

One session focused on social and economic developments. The following are excerpts from a transcript of the discussion by Professor Ellen Mickiewicz of Emory University, formerly dean of the graduate school and currently in the department of political science.

Marshall Goldman, associate director of the Russian Research Center at Harvard University, and Professor of Economics, Wellesley College, organized the program, which was co-sponsored by the William and Mary Greve Foundation and the U.S. Department of State.

I would like to talk to you about Soviet media and in particular about Soviet television. I have studied the media in the Soviet Union for a decade or so, much facilitated, about a year ago, by the acquisition at Emory University of equipment to receive Soviet television directly. It is the only place in the country — Washington included — that receives domestic Soviet television in real-time and furthermore, to my knowledge, the only one that receives the major Soviet national network — First Program.

Let me begin by describing the importance of television. There has been a tremendous crash program in the provisioning of television in the Soviet Union. In 1950, there was a total of 10,000 sets in the country. By 1976, seven million sets were produced *annually* and in 1985, television sets can be found in 90 percent of all Soviet households. The reasons why the rate of growth was slow for so many years are several: For one thing, the country has a very inhospitable terrain. There are eleven time zones in the Soviet Union, spread over a vast and often inaccessible land mass. With the invention of modern communication satellites, many of these obstacles can be leapfrogged, and television can finally saturate the national population.

Also, I think the leadership in the

Photo: Michigan State University

past did not fully grasp the potential impact that television could have in the country. In the Soviet Union, as in the United States, viewers will say that the chief value of television lies in entertainment. That's true in both systems. In the United States, television is the main source of news, and in the Soviet Union, as a recent survey showed, the majority of the population now receives most of its news about the West from Soviet television. Considering the short time that television has been available to the Soviet population, this is an astonishing development. Most popular, of course, are movies, sports, and light entertainment, but two-thirds of the Soviet audience watch the prime-time network news.

Even though television is much newer in the U.S.S.R. than in the United States, television news is thought to be much more credible than written news. Why? Of course, pictures are very, very powerful, and people tend not to understand, either here or in the Soviet Union, that there is an editing process behind these visual-images.

The question of feedback is a very interesting one. Soviet leaders thought they knew their audiences. The major national newspapers receive more than half a million letters a year; television and radio studios together receive more than two million letters a year from viewers and listeners. Obviously, those in charge thought they must know the public from the volume of that response. Recently a number of surveys were conducted that showed they were quite wrong, that official assumptions were unreliable.

First, for example, they found that newspaper readers did not understand many of the words frequently used in foreign-affairs newswriting: 50 percent did not know what "imperialism" meant; 75 percent did not know what "colonialism" meant. Another aspect of the media that the officials had not expected was essentially created by their own policies. What has happened — and I will go into this a little bit later — is that Soviet media emphasize the West so much, and in particular the United States, that they have created a thirst for international news in general, and for news of the West in particular. This has been an unintended result of their very own policy of stressing the importance of the West. It may be negative, but nonetheless it has excited that kind of thirst, that kind of reaction, and it is now causing considerable concern.

Timeliness. As you know, whoever breaks the story first has the edge in persuasive communication. In the past, timeliness never has been a value in Soviet news reporting. It was of lower priority than the educational role of Soviet news. It has now become a matter of some concern. Chernenko, in June of 1983, when he was top ideology official, talked about the West's "information-propaganda intervention." There is increasingly the sense in the Soviet Union that there are information sources around the Soviet Union, whether from foreign radios or interpersonal communication, that represent a kind of threat. It follows, therefore, that some kind of responsiveness and timeliness is going to have to enter into the reporting of news. Soviet reporting of international events, in fact, is given much greater credibility and authority by the Soviet audience than the Soviet reporting of domestic events. Again, as in the United States, it is both commonsensical and borne out by research. There are numerous opportunities for independent verification of an event that has happened near you: You've seen it, a friend has seen it, word-of-mouth transmits it. About international events there are really very few resources that an average American or Soviet citizen can exploit; there is very little evidence other than what the national media report. There is the same kind of difference in credibility, local and national, that you see in systems other than the Soviet, but it is also true that in the Soviet Union, national media are more credible than are the local media.

I will refer only briefly to the effect of Western radios. Probably about 20 percent of the Soviet adult population might listen at some point during the week to Western radio. This could be music, it could be some other program, not necessarily news, and it would appeal most to the well-educated, urban, European Soviet male.

I noted the fact that Soviet officials were really quite surprised when they had a first look — through surveys — at their own domestic audience. They were surprised by the lack of comprehension of certain commonly used terms and by the kinds of assumptions that they had had. There is evidence — and this precedes the appointment of Mikhail Gorbachev as General Secretary — that the Soviet media system is moving to deal with some of the problems they have identified. For example, that dramatic press conference, when Marshall Ogarkov and two other officials talked about the downing of the KAL plane. Or, again, after the Soviets walked out of Geneva. The coverage of the Politburo, which is now done weekly, is an innovation. The new Foreign Ministry press conferences, led by recently appointed Vladimir Lomeiko, give information to the foreign press. I think we will see more departures of this sort, and I think we also will see an enhancement of production values on Soviet television.

Let me turn now to a look at the world in Soviet and American news. This is part of a project I've been engaged in for about a year (not all the data have been coded or analyzed): comparing ABC's *World News Tonight* and the Soviet prime-time news broadcast.

One of the first of the preliminary findings from this study is the difference in centrality, the asymmetry in the coverage of each other: how much more critically important we are for them than they are for us. In fact, the United States is really *the* other country, in terms of what the Soviet public sees in its news. The figures I'm going to present to you come from initial results based on a month of news broadcasts last fall. In that month, Soviet news devoted a total of one hour to coverage of the United States; ABC, a total of four minutes to the Soviet Union. The range of countries covered totaled 30 for ABC, 53 for *Vremya* (Time), the major Soviet news program.

In this period, on ABC, 61 percent of the stories were about the United States and 4 percent about the Soviet Union. On *Vremya*, 37 percent were about the Soviet Union and 10 percent about the United States. ABC broadcast a total of 277 stories during this period, while *Vremya* broadcast 552. The Soviet news is much longer than the American news, and that is in part behind these differences – but only in part. The Soviet news, excluding sports and weather, which I don't analyze, runs about 30 to 35 minutes, but it is elastic. News broadcasts can exceed an hour and a half, if necessary, expanding to whatever has to be covered. ABC, as you know, is 22 minutes of actual news broadcasting, and that is invariable.

Close to a third of all the stories that are not principally about the United States ascribe responsibility to the United States for events occurring outside of our borders. What kind of cognitive map is imposed on Soviet news? It is a map in which the world is coherent, and one reason for that coherence relates to the role of the United States, seen as manipulating, either by itself or through puppet governments, events that happen all over the world. The United States is shown to bear responsibility for much that happens, certainly of a negative sort, across the globe, and much of this is covered in very vivid footage from location.

As to the road to Geneva: If you were watching Soviet television these days, it would be grim. You might not think that there is going to be a summit meeting – not for lack of reference, but because of the tone of Soviet broadcasting. First, there is a barrage of stories, as you might imagine, about the Soviets' plea for weapons and testing moratoria and the American refusal to accept it. Recent ASAT [Anti-Satellite Technology] and SDI [Strategic Defense Initiative] tests have been covered.

In certain cases, Soviet views are presented in stories about third parties. Very significant coverage was given to the visit of Johannes Rau, the SPD [Social Democratic Party] leader in West Germany, and clearly a man who is being cultivated by the Soviets. This visit coincided with very critical comments on Chancellor Kohl, whose telegram of greeting to German irredentists was seen as a threat to the Soviet Union.

Sometimes sources friendly to the Soviet Union – the Bulgarians, for example – on their national day, speak on Soviet television and refer repeatedly to the climate of danger and the American refusal to accede to Soviet proposals.

Another important technique for legitimizing Soviet positions is the citing of other countries' coverage of the actions of the Soviet government. Soviet media frequently refer to foreign coverage of their country. It is very important for the legitimacy of the Soviet position that *The Washington Post* or *The New York Times* or the *Economist* refer to the Gorbachev interview with *Time*.

Another element in Soviet news broadcasting is the assertion that all responsibility for the failure to ensure a peaceful world rests with the United States. Gyorgi Zubkov, the political commentator, recently stated that if there is no movement by the United States on the issue of the "militarization of the cosmos," then "nothing will happen at Geneva." *Détente* is raised again and again by the Soviet Union. I should add that the *détente* to which they refer has specific antecedents and specific components. It is not merely a vague term of approbation. When they invoke *détente*, they have in mind the kind that resulted in: (a) economic benefits – for example, the "great grain robbery" (as American opponents of *détente* dubbed it); (b) the agreement on the principles of conduct negotiated by [former Secretary of State] Kissinger, in a document that we consider less important than do the Soviets, particularly since the Soviet notion of peaceful coexistence seems to have been embodied in the agreement; and (c) the Helsinki Accord, which specifies noninterference in domestic situations and which also ratified the postwar borders of Eastern Europe. That's what they mean by *détente*, and they would like to see it revived.

There has been a distinct change of tone on Soviet television from the time that I was looking at it, say, last fall or around the first of this year. It is more hard-hitting, and more anti-American. Let me give you an example. On one news broadcast, Genrikh Bardovik talked about anniversaries that should be observed: Why not observe the anniversaries of human rights violations by the United States? The murder of Allende, the ghettos in Washington, the thousands who have been killed in Vietnam, the child in Nicaragua who is killed by American strafing planes – these are the anniversaries we should talk about. There has been a great deal about human rights violations on Soviet news; for example, the violations of the rights of the American Indian activist [Leonard] Peltier*. Obviously one of the points on our agenda in Geneva is the question of human rights in the Soviet Union; these are counter-propaganda, preemptive moves on the part of the Soviet media to display American violations of human rights in advance of Geneva and information about the American position.

One rather remarkable program, almost reminiscent of Stalinist rhetoric, took place in the middle of prime time, 9:40 P.M. Moscow time. It was a documentary film, lasting about an hour. Its subject was the pervasive attempt by American intelligence to subvert the Soviet system of government, carried out brutally in some cases by financing Russian fascist *emigres* — these are their words — who fought on the side of the Nazis. The viewer saw the carnage of Russian citizens due to these subversives backed by the U.S.A.

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*EDITOR'S NOTE: Peltier, a member of the American Indian Movement, was charged in 1975 with the killing of two FBI agents on the Pine Ridge Reservation in South Dakota. In 1977, he was convicted of the crimes and sentenced by Paul Benson, a federal judge with the U.S. Court of Appeals, 8th Circuit. Since then, there have been two appeals, each case heard by the same judge. A new trial has been denied each time.

Representative Don Edwards, chairman of the House Subcommittee on Civil and Constitutional Rights, issued a statement in June 1985 asserting that there is evidence which demonstrates "government abuse of the investigative process, suppression of evidence and falsehood." Edwards has asked for a new trial for Peltier, to be heard by a new judge. [–Based on an article in *The Nation*, June 22, 1985]

The film also showed the CIA as being responsible for and funding the Solzhenitsyn Fund. The Solzhenitsyn Fund, as you know, is supposed to be that collection of money from the royalties of Solzhenitsyn's books which is then given clandestinely to supporters of human rights in the Soviet Union. This program asserted categorically the funding came from the CIA.

The CIA was also shown to be behind Israeli intelligence, and it was implied that the desire of Soviet Jews to emigrate was related to the intelligence mission. The visuals showed not only wartime footage but also footage from the trials of Soviet citizens who explained how Americans had tried to purchase their services.

The same themes of the Soviet peace initiative will be present in different kinds of programs; for example, a show on the Moscow Film Festival was not about film at all, but how film can be used for peaceful purposes — it was really about Cuba and Nicaragua.

Gorbachev is given tremendous coverage, and that is very different from the coverage accorded Chernenko. In the space of five days, there were two news broadcasts which led with a story on Gorbachev. In each, he gave a speech and each one lasted an hour and twenty minutes. There also has been significant reduction in the coverage of all other leaders. Some have just disappeared, like Tikhonov, but coverage of others has been reduced dramatically. And this is not a matter of inelastic time. As I noted, these are infinitely expandable broadcasts. The reduced attention to other leaders and the heavy coverage of Gorbachev is very meaningful in terms of Gorbachev's stature.

Let me close by saying that Gorbachev certainly is personally adept at manipulating the media, both at home and abroad, especially in comparison with his mummified predecessors! But I would argue that the move to make television more responsive and professional is a much longer-term issue and precedes Gorbachev. And it is related, I think, to the tremendous potential impact that Soviet television has, especially on a public that has been created, a public for whom international issues have become the most salient of all issue areas.

* * *

Question: You mentioned Bardovik a moment ago. Is there any attempt to build up any single commentator, as a kind of Walter Cronkite figure, or somebody who is viewed as trustworthy because he is seen talking about momentous matters?

Mickiewicz: The anchor is faceless and has, I would say, very little impact. But there are commentators, like Bardovik, who are brought out at especially important times and who have a kind of authority and ease which is quite remarkable compared to the rest of the talking heads that you see. Bardovik was the one, for example, who was trotted out for coverage of President Reagan's comment that "We're going to bomb the Soviet Union in five minutes," which Soviet television played in English to show its authenticity. Valentin Zorin is another well-known commentator.

Comment: If you look at the newspapers, in contrast to Chernenko, Andropov, and certainly Brezhnev, you don't see Gorbachev's picture in the papers as much. You see the speeches, pages and pages of speeches, which is comparable, but in the newspaper you really don't see him.

Mickiewicz: One of the things we intend to do is to look at the differences. And I think what you're looking at are two different audiences in the Soviet Union. As in the United States, when there was a gravitation toward television for much of this kind of information, much the same thing is happening in the Soviet Union. This is especially important since in the Soviet Union something like 40 percent of all the people in rural areas, and 20 percent of those in the cities, have not gone beyond the fourth grade. That means they really cannot read newspapers very easily.

Question: You mentioned the view of the world that the Soviets are getting from their news programs. What other segments of their programming are influencing them, would you say, in a major way, outside news programming? Would there be things like game shows, or anything else, entertainment?

Mickiewicz: There are many children's programs and many sports programs. The sports broadcasts are very refreshing, to me at least, because there's not much commentary: You can just watch a game. There are dramatic shows. Films are by far the most attractive to the Soviet audience, and they are featured frequently. There are also cultural programs, essentially uninterrupted productions of opera or symphony concerts. These, like PBS programs in this country, tend not to be very popular and the viewing audience is skewed upscale in level of education.

Question: Are there signs of any type of programming that imitates American programming in any way, for example, soap operas or game shows?

Mickiewicz: There are game shows, but they are not played for high stakes. Soviet television, of course, is fundamentally educational. It does not really appeal to greed, sensationalism, or the darker side of the human character.

Comment: I want to ask you about the timeliness you mentioned, because I had an opportunity to go to the television studios in Moscow last summer, and I was struck by the fact that at 3 o'clock in the afternoon they were doing a full-scale dress rehearsal of stories, pictures, film reports — the whole thing — in advance of their 9 o'clock broadcast that night. And I'm curious whether you ever saw any kinds of chunks that were left out. . .or exactly what the time-line is between events and the time that they appear on Soviet television.

Mickiewicz: That's an interesting question, and one that we will certainly look at. What we are doing, just to tell you about the research project, is coding for ABC and Moscow television news every story for 27 variables. It will be a rather complex study. One of the things we will look at is the time lag and on which issues. Many of the issues covered by American television, particularly having to do with Soviet-American relations, are being reported on the day or on the next day. Of course it's eight hours earlier in the Soviet Union.

Question: Do you see an increase on Soviet television in the amount of coverage of the war in Afghanistan?

Mickiewicz: They have been covering Afghanistan certainly since last August when I began looking at the news. They have been covering it not so much in terms of a war of the Soviet and Afghan military battling the guerrillas. They cover it principally in two ways. One is to talk about the social revolution that is taking place, the distribution of land, the distribution of water rights, the education of women, the provisioning of medical personnel, and so on. They portray Afghanistan as developing into a system in the Socialist mode. They also talk about Afghanistan in terms of the intervention of Pakistan, and as a country threatened by Pakistan, behind which stands the United States with its supply of materiel.

To some extent more recently, there have been matters treating the military as such. There is one program, for example, that was a tribute to a rank-and-file Soviet soldier, who disarmed a grenade to save a group of children. There is a good deal of the sacrifice of Soviet troops, the elder brothers helping the Afghanis.

Question: You've been monitoring Soviet television. Have you come across anything comparable to our so-called white papers when one of the networks will focus on a particular aspect of investigative reporting?

Mickiewicz: The closest to investigative reporting is a kind of segment on the news called "Sharp Signal." Such a story would look at a dislocation in the economy for which there is some culpability. For example, the required amount of paper was not delivered to a newspaper plant. Or foodstuffs that have inexplicably and with human culpability or mismanagement disappeared or spoiled en route to the consumer. An investigative report, then, is given, with people interviewed all along the way, with a dire warning at the end that this must be cleared up. These are inserted in a very serious and weighty way into the news, and are sometimes followed a few weeks later by another segment detailing the remedial measures taken.

Question: Would you describe the extent of the coverage on Soviet television of the debate within the NATO alliance on Star Wars.

Mickiewicz: There is tremendous attention to Star Wars as an issue, and it is presented in various ways. The Soviet news does not present the issues in terms of specific plans and specific research that the Soviet Union has undertaken to meet the challenges. But there are two ways that it is countered in terms of stated Soviet policy: One is that the Soviet Union will produce as many offensive weapons as are necessary to counter any defensive shield — that there exists no successful defensive shield.

The other form of coverage is the more vague formula that the Soviet Union will do whatever is necessary to maintain its readiness. In terms of NATO debates, Soviet television portrays every case of deviance within NATO, or other partners of the United States, with respect to Star Wars. The Danish refusal to go along with it, the problems with President Mitterrand and every similar case is used to show the isolation of the United States, even from its own partners.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Volume X, Number 7

March 8, 1986

INDUSTRIAL PRODUCTION FIGURES

Product	Jan 1986	% Jan 1986 over 1985
Electricity (bil.kw.hrs)	151	103
Petroleum (inc. gas condensate) (mil.tons)	51.0	100.7
Natural Gas (bil.cu.mtrs)	58.8	107
Coal(mil.tons)	65.9	105
Steel (mil.tons)	13.7	108
Fertilizer (mil.tons)	3.0	113
Metal-cutting tools (mil. rubles)	223	112
Robots	1103	158
Computer Technology (mil. rubles)	371	118
Tractors (mils.)	4.7	104
Paper (1000 tons)	538	113
Cement (mil. tons)	11.2	108
Meat(mil. tons)	1.1	114
Margerine (1000 tons)	135	104
Watches(mils.)	5.9	110
Radios(1000s.)	734	108
Television sets (1000s)	771	104
Automobiles (1000s)	114	99.9

SOVIET OIL PRODUCTION INCREASES

The big news is that oil production in January 1986 increased over that of January 1985. This again is a reflection of the crackdown on discipline and alcoholism by Gorbachev that we have referred to in the last several newsletters. As we predicted, oil production has responded to Gorbachev's purge of personnel. It is necesary to point out that in January 1985, the weather was unusually cold and that undoubtedly had an impact in the drop in production. It should also be noted that production in January 1986, while an improvement over 1985, is still below what it was in 1984, 1983, 1982, and 1981. Moreover, the 51 million tons represents 98% of what had been planned. The Soviets report that they had expected to produce another 1.2 million tons. However, the important point is that production did increase and the expectation is that it should do even better in the next few months.

Generally production is considerably more robust this January than it was in January 1985. For example, not only is there a increasein oil production, but there is significantly improved output in coal and steel. Coal production is up 5% and steel 8%. Those figures have not been as high since the 1970s. Particularly worthy of note is the fact that meat production was up 14%. Apparently there was a good deal of premature slaughtering that was taking place. The figure however, is a bit of a mystery because there were significant meat shortages in the Soviet Union in recent weeks.

Normally we do not report these figures because there is some reason to wonder about how valid they are, but it also should be noted that the Soviets report that the general volume of industrial production was up 6% this January compared to last year, and that labor productivity had increased 5.6%. Again, these are indices and therefore, suspect, but it certainly reflects well on Gorbachev.

LIVESTOCK HERDS

As opposed to the January 1st comparisons, when the hog herd had also dropped, the figures for February 1 show that the hog herd has again begun to increase. However, except for chickens, the other herds are down. There was an intriguing article in Izvestiia on January 26, which explained in part why the herds sometimes vary as much as they do.

LIVESTOCK HERDS (Millions)

	Feb 1 1985	Feb 1 1986	% Change
Cattle	94.5	94.1	99.5%
Cows	29.5	29.1	98.6%
Hogs	58.6	58.9	100.5%
Sheep & Goats	117.3	115.7	98.6%
Chickens	722.2	740.2	102.5%

US, EAST EUROPEAN AND SOVIET TRADE BALANCES

As the material from the Department of Commerce indicates, US exports to the Soviet Union in 1985 fell by $800 million. That was largely due to a reduction in grain exports, and as other Department of Commerce data indicate, this fall was a born almost entirely by a billion dollar reduction in the amount of wheat we exported in 1985, compared to 1984. Offsetting that slightly is an increase in corn exports of about $100 million. At the same time, US imports from the Soviet Union dropped by slightly over $150 million. That too was accounted for primarily by one commodity and that was petroleum. This, by the way, was a pattern that was reflected in all Soviet exports. There was a relatively sharp drop in the export of petroleum. As a consequence of both the reduction of imports and exports, the US trade surplus with the Soviet Union was reduced to $2 billion, compared to $2.6 billion the year before.

Our trade relations with Eastern Europe also show a drop in both exports and imports. However, the declines basically offset one another so our trade deficit with Eastern Europe remains the same, approximately $900 million. Again, one of the main imports is petroleum, again largely from Romania, and our largest export continues to be grain.

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THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed.

RRC @ 1986

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02/10/86
18:06:55

All items in U.S. domestic exports to USSR, 1981, 1982, 1983, 1984, and 1985

(F.a.s. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals-------------	1,600,140	1,642,161	1,194,970	2,585,083	1,728,525
1	Beverages & tobacco-------------	400	2,979	874	1,264	8,732
2	Crude mat'l--inedible,not fuel--	59,350	214,249	264,583	224,263	90,180
3	Mineral fuels, lubricants, etc--	62,840	90,013	22,571	30,045	54,538
4	Oils & fats--animal & veg prod--	56,089	40,565	21,507	38,872	63,927
5	Chemicals-----------------------	180,220	287,846	239,398	208,219	281,634
6	Man'd goods by chief material---	32,871	25,961	29,755	16,573	9,570
7	Machinery & transport equip-----	300,814	225,458	149,452	110,221	111,926
8	Miscellaneous man'd articles----	45,371	59,129	76,422	65,908	70,898
9	Commodities & transactions nec--	722	614	2,419	2,205	2,017
	Total---------------------	2,338,818	2,588,975	2,001,951	3,282,652	2,421,948
	Total, all items exported to USSR------------------	2,338,818	2,588,975	2,001,951	3,282,652	2,421,948

Source: Compiled from official statistics of the U.S. Department of Commerce.
Note: Trade does not include special category exports.

02/10/86
18:04:28

All items in U.S. imports for consumption from USSR, 1981, 1982, 1983, 1984, and 1985

(C.i.f. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals-------------	2,841	5,413	18,054	17,415	12,856
1	Beverages & tobacco-------------	9,273	11,000	12,923	9,997	12,249
2	Crude mat'l--inedible,not fuel--	19,522	10,049	12,075	19,353	15,809
3	Mineral fuels, lubricants, etc--	110,898	10,946	59,158	202,563	106,076
4	Oils & fats--animal & veg prod--	25	6	1	12	44
5	Chemicals-----------------------	112,641	131,374	161,121	235,014	216,833
6	Man'd goods by chief material---	103,479	63,349	91,304	107,794	64,875
7	Machinery & transport equip-----	2,677	1,624	3,750	2,874	4,646
8	Miscellaneous man'd articles----	2,980	9,156	6,381	4,566	3,502
9	Commodities & transactions nec--	22,707	5,277	2,341	2,494	3,686
	Total---------------------	387,041	248,195	367,107	602,081	440,577
	Total, all items imported from USSR----------------	387,041	248,195	367,107	602,081	440,577

Source: Compiled from official statistics of the U.S. Department of Commerce.

02/10/86
18:08:24

All items in U.S. domestic exports to EASTERN EUROPE,
1981, 1982, 1983, 1984, and 1985

(F.a.s. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals-------------	1,372,971	474,670	321,173	277,073	196,770
1	Beverages & tobacco-------------	26,503	11,245	21,763	10,929	14,853
2	Crude mat'l--inedible,not fuel--	176,576	206,588	254,519	323,471	147,554
3	Mineral fuels, lubricants, etc--	41,107	17,399	16,201	32,415	85,973
4	Oils & fats--animal & veg prod--	14,389	16,465	13,482	10,307	4,254
5	Chemicals-----------------------	77,267	79,105	67,305	67,911	88,055
6	Man'd goods by chief material---	30,088	23,060	25,080	22,192	24,188
7	Machinery & transport equip-----	122,567	107,618	85,010	75,373	133,207
8	Miscellaneous man'd articles----	28,090	35,935	27,638	22,794	27,452
9	Commodities & transactions nec--	8,472	24,301	44,525	41,731	48,306
	Total---------------------------	1,898,029	996,387	876,695	884,198	770,611
	Total, all items exported to EASTERN EUROPE---------	1,898,029	996,387	876,695	884,198	770,611

Source: Compiled from official statistics of the U.S. Department of Commerce.
Note: Trade does not include special category exports.

02/10/86
18:06:06

All items in U.S. imports for consumption from EASTERN EUROPE,
1981, 1982, 1983, 1984, and 1985

(C.i.f. value, in thousands of dollars)

SITC number	Description	1981	1982	1983	1984	1985
0	Food & live animals-------------	196,227	146,570	178,045	179,369	206,033
1	Beverages & tobacco-------------	27,128	26,604	38,617	29,818	25,887
2	Crude mat'l--inedible,not fuel--	15,895	9,791	10,267	8,731	8,809
3	Mineral fuels, lubricants, etc--	160,527	105,946	296,283	537,022	461,030
4	Oils & fats--animal & veg prod--	1,105	453	0	3	46
5	Chemicals-----------------------	39,969	36,886	60,557	132,758	196,924
6	Man'd goods by chief material---	365,165	163,683	173,847	428,120	333,275
7	Machinery & transport equip-----	254,859	159,501	116,828	160,639	161,702
8	Miscellaneous man'd articles----	232,233	241,235	219,945	267,158	249,660
9	Commodities & transactions nec--	4,084	7,407	4,491	5,361	10,551
	Total---------------------------	1,297,193	898,076	1,098,880	1,748,980	1,653,916
	Total, all items imported from EASTERN EUROPE--------	1,297,193	898,076	1,098,880	1,748,980	1,653,916

Source: Compiled from official statistics of the U.S. Department of Commerce.

THE OLIN FOUNDATION NATIONALITIES SEMINAR

BARBARA ANDERSON AND BRIAN SILVER,
FEBRUARY 3, 1986

"THE POLITICS OF LANGUAGE AND PATTERNS OF LANGUAGE CHANGE IN THE SOVIET UNION"

Drs. Anderson and Silver focused on two related topics: patterns of language change in the USSR, particularly the growth of bilingualism, as well as linguistic Russification; and changes in ethnic self-identification, as reflected in the censuses of 1959, 1970 and 1979.

Between the 1959 and the 1979 census periods, the majority of the Soviet population retained their national languages as their native language (1959-87.6%, 1979-85.6%). Although a small shift in the use of Russian as a native language did occur in this period (increasing from 10.8% to 13.0% between 1959 and 1979), the major change which occurred was in second language facility; between 1970 and 1979 alone, the percentage of the population which claimed Russian as a second language increased from 37.1% to 49.1%. The general trend in the last thirty years, therefore, is toward bilingualism rather than linguistic Russification.

Given this trend, one must examine Soviet language policy and attempt to establish whether this policy has had a direct impact on patterns of language change. The heyday of the national schools took place between 1934 and 1940; since then, a gradual reduction in native language instruction has occurred. All the republic nationalities have native language textbooks through the tenth grade. For autonomous republics and autonomous oblasts, native language is increasingly taught as a subject of study, while it is less often used as the primary medium of instruction. For smaller nationality groups, native language instruction has decreased both as a subject of study and as the primary medium of instruction. All of this implies a balanced approach rather than a policy of intensive Russification in the schools.

Therefore, it appears that a political principle - the relative standing of a group within the federal structure - plays a determining role in language policy in schools. The efficiency principle is also at work here; the federal divisions between nationality groups is largely synonomous with the size of the group. It seems that before WWII, the efficiency principle was the primary determining factor in language policy; while it continues to be significant at present, the political principle has grown in relative importance.

The size of a population group will change over time in response to four factors: fertility, mortality, migration and assimilation. Several nationality groups experienced a net loss in population between 1959 and 1970 due to ethnic reidentification. Only the Russians and the Georgians experienced a net gain in population size. All of those who reidentify ethnically do not necessarily reidentify as Russians; for example, Bashkirs most often reidentify as Tatars. Those groups with a significant net loss in population size tend to be non-Muslim, autonomous republic level groups; union republic level nationalities have a much lower rate of reidentification.

All of these trends may be explained by a combination of social, demographic, political and historical factors. Drs. Anderson and Silver argue that the primary determining role in ethnic and linguistic assimilation is played by social and demographic factors, rather than any state Russification policy. Thus, considerations of social efficiency have led to the growth of bilingualism, rather than linguistic assimilation. The percentage of a given population which claims Russian as a second language strongly correlates with the level of contact that population group has with Russians. Over seventy percent of the variation in the knowledge of Russian as a second language can be accounted for by the level of contact with Russians, religion, and urban/rural differentials. Use of Russian strongly correlates with a group's level of urbanization. In the case of the Muslim groups, however, religion acts in some ways as an "ideological filter", reducing the impact of contact with Russians on language use.

The high rates of Russification among some groups must also be sought in socio-historial factors. A key triggering mechanism could have been the male-female differentials resulting from WWII. The Balts and Slavs suffered heavy male losses during the war, yet the non-Muslim, autonomous republic level nationalities suffered even greater losses. Such male deficits led to a higher rate of ethnic intermarriage, especially with Russians.

All of these conclusions indicate that Soviet state policy has had little effect on linguistic and ethnic assimilation by the non-Russian nationalities. It has merely compounded those social and demographic factors which have led toward increasing bilingualism.

FINAL CORPORATE SPONSOR SEMINAR OF THE YEAR

The final Corporate Sponsor seminar of the year will take place on Monday, May 5th. The focus of this conference will be negotiation with the Soviets. A copy of the preliminary program and application form is included. This program is being organized by two of our Mid-Career fellows, Charalambos Vlachoutsikos and Lee Kjelleren. There is also the possibility that we will have a supplimental evening session which will be addressed by someone from the Soviet Union. We hope to have more concrete information about that in our April newsletter.

THE SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

Perhaps the most notable feature of the Soviet balance of trade with Eastern Europe is that for the first ten months of 1985, Romania has built up a rather substantial trade surplus of 300 million rubles. That contrasts sharply with most earlier years, except for 1982, when the trade balances between the two countries were nearly equal.

It is also worth noting that the Soviet Union's exports to Poland have increased somewhat larger than Poland's exports to the Soviet Union so that the Soviet Union once again has a rather trade surplus with Poland, this time amounting to almost 900 million rubles.

ARDEN HOUSE

This will be the last newsletter before the Arden House Conference. We are happy to report that we have added some new speakers to the program. Senator John Chafee from Rhode Island will be joining us, along with Senator Simon and Senator Sarbanes. Also, Congressman Dante Fascell, the chairman of the House Foreign Affairs Committee will be joining us just before he makes a visit to the Soviet Union.

Preliminary applications make this look like it will be one of the best attended conferences we have ever had. However, because Arden House has expanded its housing accomodations, there is still room for others who may want to send in their applications.

The Boston Globe

SUNDAY, FEBRUARY 23, 1986

THE SOVIET UNION

Changes in the air

Gorbachev cleans house

By Marshall I. Goldman
Special to the Globe

Whether accidental or intentional, when Mikhail Gorbachev opens the 27th Congress of the Communist Party of the Soviet Union on Tuesday, it will be 30 years to the day that Nikita Khrushchev denounced Stalin at a similar party congress. While no Russian I met during a recent trip to the Soviet Union was aware of the coincidence until I mentioned it, and while almost all insist that Khrushchev is still held in low repute, nonetheless his policies, if not his reputation, are experiencing a revival. In contrast, Brezhnev and his era are being openly criticized. This has reached the point where the views of American Sovietologists, like me, who until recently were banned from the Soviet Union because of what we wrote during the Brezhnev era, are now regarded by at least some officials as models for what Soviet critics should have been candid enough to say at the time.

Gorbachev himself has set the tone for the new spirit of openness and self-criticism. In a notable New Year's message to the Soviet people he said: "Today, we describe things as they are. Successes are successes, failures are failures and mistakes are mistakes. That is the best cure for arrogance and smugness."

To watch Gorbachev clean house of the old, the inefficient and the corrupt is breathtaking. In 11 months' time, he has replaced 18 of the 40 ministers dealing with the economy, 45 of the 59 first secretaries of the regional communist parties (recently referred to as "the local tyrants") and four of the first secretaries of the 14 major republics. That is beyond and above those such as Vladimir Sushkov, who, until December, was deputy minister of foreign trade and the genial and powerful Soviet host of the US-Soviet Trade and Economic Council meeting held in Moscow in December. Allegedly, he had the bad luck to be caught smuggling in video tapes and thousands of dollars of cash from over-eager Japanese salesmen. According to several reports, he is now sitting in a Moscow jail, charged with soliciting bribes.

But despite all Gorbachev's talents, his undisputed power and his repeated calls for economic revitalization (I was corrected when I used the word reform – something Gorbachev never says), no one I spoke to seemed to know exactly what he intends to do with the economy. He has set loose a flood of proposals and experiments, the likes of which we have not seen since Khrushchev's era. And, intriguingly, many of the things being done now bear a strong similarity to what Khrushchev did then, even though, as a package, Khrushchev's efforts have been attacked as "hare-brained ideas."

Khrushchevian signs from the past: Ministries are again being broken up, and the Moscow bureacrats told to head to the provinces; economic powers are being transferred to the regions away from Moscow in order to lessen Moscow's control over all economic affairs; enterprises are being authorized to take more initiative at the local level; government and party officials are being purged in order to bring in new talent and political support; and there are even calls again for the planting of corn to replace the wheat that is currently being fed to the livestock.

This Khrushchevism without Khrushchev does not mean that Gorbachev's policies are consistent or well thought out. Many of them are as unlikely to be successful now as they were in Khrushchev's day. They threaten as many interests now as they did then, particularly among those who fear the centrifugal forces that might be unleashed by shifting power from Moscow to the provinces.

In fairness to Gorbachev, he has not limited himself or his advisers to initiatives from the past. In order to stimulate productivity, at least some senior advisers to Gosplan (the state planning organization) in an article in the newspaper Sovetskaia Kultura have raised the prospect that the Soviet Union might yet have to deal with widespread unemployment. Heretofore only a few venturesome factory managers have comtemplated such a drastic measure. Admittedly, the idea of widespread reshuffling of jobs is in the trial-balloon stage. Except for a few Soviet officials who had been queried by their embassy in Washington about the article, no Soviet officials I met had read or heard about the article, which raised the spectre of 13 million to 19 million job reassignments.

Yet the appearance of such an article, along with the firings that have occurred in the ministry of agriculture and a proposed 30 percent staff reduction in at least one of the major Moscow research institutes, indicate that this may be more than just a random experiment.

Gorbachev's advisers are also looking more closely at some of the reforms introduced elsewhere in the communist world. The formation of large industrial kombinats (large holding companies) in the German Democratic Republic seems to be particularly appealing to them, the market-oriented reforms of Hungary less so. Until recently, Chinese reforms were also strongly criticized, but, while in Moscow, I learned that a special commission has been formed to see what in the Chinese experience under Deng might be useful for the Soviet Union.

The concern among the more thoughtful economists is whether all these diverse measures can be ultimately coordinated so as to make meaningful changes in the economic system and reduce the growing technology gap that an increasing number of Soviet officials have come to acknowledge.

After only 11 months in control, it is still too much to expect that Gorbachev or anyone can resolve all these dilemmas so soon. Yet he has raised expectations. Initially, this can be used to his advantage – but only if he can resolve these dilemmas. Otherwise, this sense of heightened expectation may ultimately prove to be disadvantageous.

Marshall I. Goldman is a professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard.

Mikhail Gorbachev. AP PHOTO

Recalculations Put Gorbachev & Co. Deeper in the Hole

By Vladimir Kontorovich
And Boris Rumer

Recent writings by a handful of Soviet economists explode some of the most sacrosanct myths about the Soviet economy. They argue that official statistics lie; that inflation has been higher, and growth lower, than the data show; and that, as a result, the whole picture of the Soviet economy is distorted. That such statements can appear in the Soviet press at all (most recently, in the main party newspaper, Pravda) demonstrates how alarmed the Soviet authorities are by their economic situation, and how desperately they are looking for solutions.

While the Soviets are always ready to castigate a particular firm for padding its reports, data for the whole economy are beyond criticism. Historically, official statistics showing high growth rates and price stability were important in legitimizing the regime and presenting it as an example to be followed by other countries. Yet the recent writings dub official data as misleading and untruthful, and point to the Central Statistical Administration as the perpetrator of deceit. Soviet economist S. Solomon Kheinman declares that aggregate data, especially time series, contain "hidden lies."

The official line is that an absence of inflation, the scourge of modern capitalism, is one of the advantages of the planned economy. There can be no inflation, since the prices of all the products are fixed by the authorities. Yet industrial firms are interested in higher prices for their products; this makes it easier to reach higher volumes of output in money terms and to increase accounting profits. So when the firms introduce new products, they propose vastly inflated prices for them. Often, the product is new only in name, or has purely cosmetic improvements; its introduction is merely a pretext for raising the price. The authorities who have to approve the proposed prices are so overloaded with requests that they validate whatever prices the firms propose. The resulting inflation is not acknowledged by the Soviet statistics. Officially, high prices of new products reflect their improved quality.

Soviet economists now come up with estimates of the rate of this sort of inflation. The latest one, published in Pravda, suggests that prices of investment goods and services have been growing at about 4.5% a year for the past quarter of a century. But the significance of such estimates goes much further than the question of inflation under central planning.

Official data that do not account for hidden inflation are not cooked especially to mislead the outsiders. These are the same data that are used by the Soviet planners to allocate resources in the economy. Obviously, decisions based on faulty data cannot be correct.

Real declines in economic indicators have been disguised by hidden inflation to appear as increases. The Pravda article states that real investment in the steel industry has been falling during the past 10 years. It follows from the estimates in this and other texts that all real investment has been falling in the past 10 years, whereas official data show it as increasing. On the brighter side, capital productivity did not decline nearly as much as official data show.

The size of the Soviet economy and its growth rate are important for policy makers in the West. They commit resources to make estimates of Soviet growth that are supposed to be free of the shortcomings of the official data. Much of the quantitative analysis, modeling and forecasting of the Soviet economy in the West is based on these revised estimates. Western estimates of Soviet growth have been systematically lower than the official ones. Yet, if one believes the recent writings of Soviet economists, these estimates may still have been overestimates, especially in the past 10 years.

Indeed, in the past 10 years, as inflation was accelerating in the Soviet Union, the gap between the real growth rates and the official ones must have widened. Western estimates, on the contrary, were getting progressively closer to the Soviet official data. One cannot build an estimate of Soviet gross national product without using Soviet data. And some of the official Soviet data that are used as building blocks in the Western estimates are the ones most distorted by hidden inflation. Also, since the mid-1970s, the Soviet Union has been curtailing the amount of economic data it publishes, making the task of Western analysts harder.

If Soviet growth has been slower than estimated, actual GNP must be lower than thought. Relating defense expenditures, which are estimated separately, to a smaller GNP would make for a higher burden of defense on the Soviet economy. Since hidden inflation affects the manufacturing sectors and spares mining, utilities and agriculture, it also distorts our image of the structure of the economy, making it look more advanced than it is.

Finally, the alternative Soviet estimates throw a different light on the situation facing the new Soviet leader. It is one thing to preside over an economy where real investment is growing, and quite another where it has been shrinking. The urgency of changes in the economy, the affordability of countering Star Wars, and other strategic questions look different in light of the alternative estimates. Mikhail Gorbachev probably does not look at any economic data except the official figures. But he is aware of the real situation, when it comes to apportioning resources and comparing real yields to money spent. The alternative Soviet estimates may give a better indication of the choices the leader faces.

Mr. Kontorovich heads Command Economies Research Inc. in Princeton Junction, N.J. Mr. Rumer is a research associate at Harvard's Russian Research Center.

THE WALL STREET JOURNAL.

February 27, 1986

What Defense-Spending Gap?

By Franklyn D. Holzman

MEDFORD, Mass. — President Reagan is again asking for more military spending, and, as before, he partly bases his case on an overstatement of Soviet military outlays.

When he said Thursday in his television address that the Soviet Union had invested $500 billion more in its military than the United States had since 1970, he was playing the same tune he played in February 1981, when he said, "Since 1970, the Soviet Union has invested $300 billion more in its military forces than we have." In March 1981, the Central Intelligence Agency updated this estimate to $420 billion. But a proper accounting and interpretation of both sides' military outlays indicates that, in fact, the West outspent the Eastern bloc by $740 billion from 1971 through 1980. Actually, Mr. Reagan was off by more than $1 trillion. Let me explain.

The C.I.A. makes many economic comparisons of the two superpowers, calculating its estimates in dollar and ruble prices. Its comparisons are almost always presented, properly, as an average, for dollar comparisons exaggerate Soviet outlays and ruble comparisons exaggerate ours, partly because of wide differences in prices between the countries. However, the C.I.A.'s comparison of military outlays remains a glaring exception to its standard practice. While a ruble estimate is calculated and the figure is made public, no dollar-ruble average is presented. Press releases, hearings and media coverage ignore it and concentrate on the dollar comparison. This exaggerates Soviet military spending relative to ours — as the C.I.A. often has admitted.

An adjustment for this exaggeration reduces the $420 billion "gap" by $100 billion.

Second, the C.I.A. said in 1984 that it had overestimated Moscow's 1976-to-1982 military spending by assuming a 3 percent to 5 percent annual growth rate in that spending when in fact it had been only 2 percent.

Deduct $30 billion more from the "gap."

Third, in comparing outlays, the Pentagon has subtracted money spent on our Vietnam War effort from our total, on the sound basis that the war was not part of our confrontation with the Soviet Union. Similarly, we should not calculate the Soviet Union's outlays for its problem with China, for they are not part of the Soviet confrontation with us. Moscow might ask, How much more would Mr. Reagan be spending if a million-man Chinese Army was poised on America's border and there were a billion people just behind that army? Various C.I.A. and Pentagon estimates suggest that 15 percent to 20 percent of Soviet military spending has been directed at China.

C.I.A. data on Soviet costs are befogged

Subtract $230 billion — 15 percent of Moscow's 10-year total military spending of $1.530 trillion — from the C.I.A.'s $420 billion "gap."

These three revisions leave the United States with an adjusted 10-year difference of about $60 billion — a trivial sum over a decade.

Fourth, the purveyors of the "gap" dogma pretend the world consists of two superpowers. But America is joined by the North Atlantic Treaty Organization; the Soviet Union harnesses six countries in the Warsaw Pact. NATO's other 15 members include most of the industrial democracies, and three of them — Britain, West Germany and France — each spends more on weapons annually than all six smaller Warsaw Pact countries do together.

Over the 10-year period ending in 1980, NATO, excluding the United States, outspent the Warsaw Pact, excluding the Soviet Union, by $800 billion. Subtracting from this amount the $60 billion by which the Soviet Union outspent America results in an overall NATO-Warsaw Pact gap of $740 billion — in our favor.

To summarize, in 1981 the Reagan Administration wound up claiming the Soviet Union had outspent the United States by $420 billion from 1971 through 1980. In fact, all NATO members outspent all Warsaw Pact members by $740 billion. This difference (from a negative $420 billion "gap" to a positive $740 billion gap) adds up to $1.16 trillion — what might be called the Reagan misinformation gap.

Moreover, an adjusted American-Soviet 10-year gap of $60 billion was trivial when we consider how far behind us in military strength the Russians were in 1970. Further, President Reagan's $80 billion addition to the supposed 1971-1980 gap (when he elevated it last Thursday to $500 billion from $420 billion) is more than neutralized by Soviet outlays directed against China since 1980.

In evaluating the President's new defense budget requests, Congress should take these disparities into consideration. If, indeed, the Soviet Union and its Warsaw Pact allies are catching up, then the Pentagon and its NATO counterparts cannot be making very good use of the funds they have been allocated. ☐

Franklyn D. Holzman, professor of economics at Tufts University and a fellow at the Russian Research Center, at Harvard University, is author of "Financial Checks on Soviet Defense Expenditures."

Article appeared
in the March 4,
1986 New York
Times

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
FOR THE 1ST NINE MONTHS OF 1981-1985

(in million rubles)

	Exports from U.S.S.R.					Imports to U.S.S.R.				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Bulgaria	3225	3546	4141	4661	4788	2751	3245	3720	4122	4425
Czecho-slovakia	3108	3728	4270	4948	5002	3060	3513	4018	4422	4806
GDR	4037	4387	4992	5385	5619	3861	4270	4879	5576	5619
Hungary	2445	2711	2951	3298	3318	2413	2710	2957	3178	3513
Poland	3667	3581	3868	4430	4804	2419	2882	3485	3843	3960
Romania	1111	1013	1199	1352	1351	1237	1323	1280	1340	1657
	17,593	19,166	21,421	24,094	24,882	15,741	17,933	20,339	22,481	23,980
Balance of Trade	+1852	+1283	+1082	+1613	+902					

WHY THE SOVIETS ARE SERIOUS ABOUT ARMS CONTROL

by Jerry Olek

In September, at the conclusion of his Time interview, General Secretary Gorbachev made a statement which did not get much notice in the West. He said, "I don't remember who, but somebody once said that foreign policy is a continuation of domestic policy. (Coincidence, or not, Richard Pipes said something very similar to this in the forward to his book, Survival Is Not Enough, page 12.) If that is so, then I ask you to ponder one thing: If we in the Soviet Union are setting ourselves such truly grandiose plans in the domestic sphere, then what are the external conditions that we need to be able to fulfill those domestic plans? I leave the answer to that question to you." Those who did not get the message needed to ponder only until Gorbachev's visit to France in early October. After describing the main objective of his domestic policy as the accelerated social and economic development of Soviet society, he added that "it is not difficult to see that the paramount conditions for attaining these ends are not only reliable peace but a calm, normal international situation. And it is these priorities that determine our foreign policy. .." Can these statements be written off as empty rhetoric designed to enhance the new Soviet leader's image as a man of peace and to woo Americans, Frenchmen and others into a false sense of security? A look at economic developments in the Soviet Union over the last several years suggests not. The economy is clearly at a critical juncture and Soviet leaders are trying to pull it out of a protracted period of stagnation and a declining rate of growth. It is arguable whether the economy is undergoing growing pains as it progresses to the next higher technology intensive stage or if it is exhibiting the first signs of old age and permanent decline.

What is clear is that some of the "truly grandiose plans" Mr. Gorbachev mentioned in his Time magazine interview are already being implemented. Whether these and other measures needed to turn the economy around can be continued, depends in large measure on a reduction, or, on a leveling off of resources allocated to arms production. The Soviets have probably concluded that the only acceptable way to accomplish this is to cap the arms race. Their strident objections to SDI are based at least partially on the realization that development of countermeasures, let alone of an equivalent system, would have a devastating effect on their already deeply troubled economy.

The plans already being implemented include what the Soviets refer to as the Food Program, the Energy Program, the Consumer Program and the modernizing of remaining sectors of the economy. Soviet literature indicates that these programs are very ambitious and expensive. It is also clear that high priority is being given to at least some of these programs and there are hints that the traditional priority afforded to production for the Soviet military has been, at least for the near term, reduced.

What does all this mean for arms control? The Soviets are at a point in their economic development where continued heavy investment in weapons production is no longer in their national interest. They have evidently been at this point for some time. Mr. Gorbachev is merely the first leader to enunciate the policy change. Arms control is essential to create the conditions needed to facilitate the Soviet economic recovery. This does not mean that the Soviet economy is so weak that the Politburo will accept any offer, but it almost certainly means that the USSR is serious about arms control.

U.S. DEPARTMENT OF STATE
RUSSIAN RESEARCH CENTER,
HARVARD UNIVERSITY

WILLIAM AND MARY GREVE FOUNDATION

NEGOTIATING WITH THE SOVIETS

Harvard Faculty Club
20 Quincy Street
Cambridge MA 02138

9:45 a.m.

I. Adam Ulam, Director, Russian Research Center, Harvard University
"The Historical Background of US-USSR Negotiating Experience"

10:10 a.m. II. Private Sector Panel

Mr. James Giffin, President, US-USSR Trade and Economic Council
Mr. Ara Oztemel, Chairman of the Board, SATRA Corporation
Mr. Robert Schmidt, Earth Energy Systems
Mr. Charalambos Vlachoutsicos, Chairman of East/West Committee of the Hellenic Chapter of the International Chamber of Commerce, Paris

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Ambassador Walter Stoessel, Former Ambassador to the USSR and Under-Secretary of State
Mr. Helmut Sonnenfield, Guest Scholar, The Brookings Institute
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2:30 p.m. COFFEE

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Professor C. C. Lamberg-Karlovsky, Curator of Middle East Archaeology, Professor of Anthropology, and Director of the Peabody Museum (currently organizing an excavation in Soviet Central Asia)

4:45 p.m. ADJOURN

U.S. DEPARTMENT OF STATE
RUSSIAN RESEARCH CENTER,
HARVARD UNIVERSITY

WILLIAM AND MARY GREVE FOUNDATION

NEGOTIATING WITH THE SOVIETS

Monday, May 5, 1986
Harvard Faculty Club
20 Quincy Street, Cambridge MA 02138

Please enroll me as a participant

NAME____
Last First Middle

TITLE____

AFFILIATION_______________________________________

ADDRESS____
Street City State Zip code

Telephone________________________

HOTEL RESERVATIONS: I will/will not need hotel reservations for the following dates: ( ) May 4(Sunday night) ( ) May 5 (Monday night) Rates vary from $65 to $92 per night. We will reserve you a room at the lowest rate still available.

ADMISSION: $150.00 (one hundred fifty dollars) per participant
PLEASE MAKE CHECKS PAYABLE TO HARVARD UNIVERSITY
Fee covers all meals and beverages

Please return form and check to:

Catherine Reed, Russian Research Center, Harvard, 1737 Cambridge Street, Cambridge MA 02138 ((617) 495-4037)

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The RRC is currently in the process of organizing a supplementary program for the evening of May 5 (6:30 - 9:30 p.m.) featuring a guest speaker from the Soviet Union, who will speak on the topic of negotiating with the West. There will be a registration fee of $50. If you are interested in attending, please indicate so below.

( ) Please send me more information on the evening program.

4/7/86

H2030-1

HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

April 1, 1986
Volume X, Number 8

INDUSTRIAL PRODUCTION FIGURES

Product	Feb 1986	% Feb 1986 over 1985
Electricity (bil.kw.hrs)	141	104
Petroleum (inc. gas condensate) (mil.tons)	46.3	101
Natural Gas (bil.cu.mtrs)	53.7	107
Coal(mil.tons)	62.1	106
Steel (mil.tons)	12.5	111
Fertilizer (mil.tons)	2.7	116
Metal-cutting tools (mil. rubles)	234	114
Robots (in thousands)	1.1	142
Computer Technology (mil. rubles)	375	123
Tractors (mils.)	4.5	105
Paper (mil. tons)	0.5	113
Cement (mil. tons)	10.3	111
Meat(mil. tons)	0.8	113
Margerine (1000 tons)	129	105
Watches(mils.)	5.7	108
Radios(1000s.)	730	106
Television sets (1000s)	775	106
Automobiles (1000s)	108	101

INDUSTRIAL GROWTH CONTINUES IN FEBRUARY

Gorbachev continues to work his magic. Industrial production in February grew at rates that were reminiscent of the good old days under Khrushchev and even Stalin. As a look at the table indicates, production was up in every sector. Again, that may be due in part to the fact that February 1986 was not as cold as February 1985. More likely however, it is due to the pressure that Gorbachev is supplying in terms of discipline, the crackdown on corruption, and as we have mentioned so many times before, the drive against alcoholism.

Again, most notably, oil production rose. It rose 1.3% on a February to February basis, and a 1.0% increase for the two month period. In the Soviet view, that is still way below the designated plan, but it does, as did the results for January, suggest that the drop in production has been halted, at least temporarily.

If the Soviets can continue at this rate, overall production for the year will be back up to 600 million tons or 50 million barrels a day.

Admittedly, the gain in production in the petroleum industry pales in comparison with some of the other results. For example, coal production for the two months was up 6% and steel was up 11%. That clearly is reminiscent of the old days of Stalin. Similarly, meat production was up 13%.

Again, these figures are much less meaningful, but the Soviets report that overall industrial production for the first two months of 1986 was up 7.3%, compared to the year earlier, and labor productivity was 6.9%.

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LIVESTOCK HERDS

The livestock herd seems to have improved a bit, except for the cow population, which is now 2% behind what it had been a year ago. As of February 1, it was down only 1.4%.

LIVESTOCK HERDS (Millions)

	Mar 1 1985	Mar 1 1986	1986 as % of 1985
Cattle	95.2	94.7	99.5%
Cows	29.5	29	98%
Hogs	58.5	59.1	101.%
Sheep & Goats	122.4	121.4	99%
Chickens	734	752.6	102.9%

FINAL CORPORATE SPONSOR SEMINAR OF THE YEAR

The final Corporate Sponsor seminar of the year will take place on Monday, May 5th. The focus of this conference will be negotiation with the Soviets. Copies of the program and application form are included in this month's newsletter. This program is being organized by two of our Mid-Career fellows, Charalambos Vlachoutsikos and Lee Kjelleren. There is also the possibility that we will have a supplemental evening session which will be addressed by someone from the Soviet Union. We will send out information on this, as it becomes available, to those who indicate an interest on their registration form.

THE 10TH ANNUAL ARDEN HOUSE CONFERENCE

The 10th Annual Arden House Conference, held March 21-23, 1986 was well attended and featured a diverse group of speakers and participants. The topic of the conference was "Mikhail Gorbachev: One Year After." Ambassador Arthur Hartman delivered the keynote address on Friday evening. Panels on Saturday addressed a wide variety of issues. Gorbachev, Is This The New Soviet Politics? featured Mark Beissinger, Marshall D. Shulman, and Adam B. Ulam. Gorbachev - Any Difference for Eastern Europe and China? examined relations between the USSR and its communist bloc allies, and included presentations by Charles Gati and Robert Legvold. The panel on economic issues, entitled Soviet Economic Reform: Has Gorbachev Made a Difference? included presentations by Richard Ericson, Abram Bergson and Marshall Goldman. The question of the utility of the transfer of technology was addressed by a panel, The Transfer of Technology: How Helpful Is It?, featuring Lutz Mann and Marshall Goldman. Saturday night's panel proved to be one of the most popular and gave participants the opportunity to speak at length with Senator Paul Sarbanes, Congressman Dante Fascell and Congressman Dave McCurdy. The two panels on Sunday morning addressed US-USSR relations in terms of treaty adherence and summit conferences. Treaty Violations-How Do We Define? Have There Been Any? How Do We Avoid? featured Mark B. Schneider, Marshall D. Shulman and Ambassador Warren Zimmermann. The Geneva Summit-What Happened and What Lies Ahead? closed the conference with presentations and discussion by Jack Matlock and Ambassador Arthur Hartman. Evaluations of the conference have been overwhelmingly positive and indicate that this year's effort well may be considered the best one to date. Mark your calendar now--next year's conference is scheduled for March 27-29, 1987.

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RRC @ 1986

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CURRENCY FIGURES

Rubles Purchased Per 100	Jan 1986	Feb 1986	Mar 1986
Austrian shilling	4.36	4.44	4.54
U.K. pound	109.15	104.18	104.64
W. German mark	30.65	31.26	31.82
U.S. dollar	75.85	73.55	71.40
French franc	10.00	10.17	10.36
Japanese yen	.375	.401	.408
Italian lira	.0449	.0459	.0468
Swiss franc	36.40	37.71	37.99

As currency figures for the first three months of 1986 indicate, the U.S. dollar and U.K. pound continue to decline relative to the ruble. All other currencies included in our survey exhibit a continued gradual strengthening against the ruble.

U.S. DEPARTMENT OF STATE
RUSSIAN RESEARCH CENTER,
HARVARD UNIVERSITY

WILLIAM AND MARY GREVE FOUNDATION

NEGOTIATING WITH THE SOVIETS

Harvard Faculty Club
Cambridge MA 02138
May 5, 1986

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I. Adam Ulam, Director, Russian Research Center, Harvard University
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ADMISSION: $150.00 (one hundred fifty dollars) per participant
PLEASE MAKE CHECKS PAYABLE TO HARVARD UNIVERSITY
Fee covers all meals and beverages

*Harvard affiliates can attend the conference (without lunch) for free.
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5/17/86 #2030-1

HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

May 10, 1986
Volume X, Number 8

INDUSTRIAL PRODUCTION FIGURES

Product	1st 3 Months of 1986	1st 3 Months of '86 as % of 1st 3 Months of 1985
Electricity (bil.kw.hrs)	437	104
Petroleum (inc. gas cond.)(mil. metric tons)	149	101
Natural Gas (bil.cu.mtrs)	172	107
Coal (mil. metric tons)	194	105
Steel (mil. metric tons)	40.1	110
Fertilizer (mil.tons)	8.7	113
Metal-cutting tools (mil. rubles)	718	116
Robots (in thousands)	3.4	127
Computer Technology (bil. rubles)	1.1	117
Tractors (mil. hpower)	13.9	105
Paper (mil. metric tons)	1.6	109
Cement (mil. metric tons)	32.8	110
Meat(mil. metric tons)	2.8	107
Margerine (1000 tons)	405	105
Watches(mils.)	17.5	107
Radios (millions)	2.2	106
Television sets (millions)	2.3	104
Automobiles (1000s)	333	100.7

The production for the first three months of 1986 continues to increase compared to the first quarter of 1985. Most of the indices are not quite as high as they were for the first two months of the year, but they continue to grow. For example, for the whole three months, steel production is 10% and coal production is 5% higher, in both cases an unusually large amount.

The official communique announcing the increase points out that the impressive results are "to a certain extent linked with the low growth of production in the first three months of last year." That is somewhat more candor than we are accustomed to, but the fact remains that production is still growing.

The statistical report also points out that the petroleum industry is not fulfilling its targets. Nonetheless oil production in March 1986, compared to March 1985, was up two percent. Again, that contrasts with the drop in production observed last year at this time. There is another official report which says that on April 20, the oil producing enterprise in Nizhnevartovsk is now meeting its planned daily output of one million tons of petroleum per day. In fact, it is beginning to overfulfill its plan. This is in direct contrast to the operations of the enterprise in 1985, when they fell far behind their targets.

The big question now, however, in the Soviet Union is "what will happen in the aftermath of the melt through at Chernobyl?" We should expect to see, in the May figures, and maybe even as early as the April figures, not only a decline in electricity generation, but in industrial production. Next month at this time, in other words, we may have some clue as to the impact of the nuclear accident on the entire Soviet economy.

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HEAD OF LIVESTOCK IN COLLECTIVE AND STATE FARMS

(in millions)

	Apr 1 1985	Apr 1 1986	1986 as % of 1985
Cattle	96.7	97.1	100.4%
Cows	29.6	29.2	96.6%
Hogs	57.6	58.8	102.1%
Sheep & Goats	132.1	132.6	100.4%
Chickens	756.2	779.7	103.1%

Except for the number of cows, which are down more than they were a year ago at this time, all other livestock categories have increased. It will be interesting, again, to see what happens to the livestock herds when we receive the April and, even more telling, the May figures.

NEGOTIATING WITH THE SOVIETS

The final Corporate Sponsor Seminar of the 1985-86 academic year took place May 5, 1986 at the Harvard Faculty Club. The conference was well attended, with over 70 participants from the U.S. government, business, media and academia.

Professor Adam B. Ulam opened the conference with a short synopsis of the historical background of US-Soviet negotiations. His presentation was followed by the first of three panels examining negotiating experiences from the business, diplomatic, and socio-cultural perspectives. Private sector panel members included Mr. Ara Oztemel, Chairman of the Board of the SATRA Corporation; Mr. Robert Schmidt, President of MinnAspin Associates; Mr. C. Vlachoutsikos, a Greek businessman, and Mr. Bill O'Hara of The Mercator Corporation. Certain basic elements of dealing effectively with Soviet Foreign Trade representatives were introduced: businessmen must deal from a position of strength and should be willing to walk away from negotiations should they fail to bear fruit; preparation is crucial as Soviet negotiators are always well informed; Soviets are looking for long-term economic relationships; the Soviet Union has a good reputation for implementation once a contract is signed; back channels can often be useful in the negotiating process; and while it is difficult to have a clause removed from a contract, it can be effectively nullified by additional clauses.

After lunch, the Public sector panel commenced with short presentations by Mr. Helmut Sonnenfeldt, a Guest Scholar of the Brookings Institution and Mr. Dimitri K. Simes, Senior Research Associate of the Carnegie Endowment for International Peace. As might be expected, and as both Mr. Sonnenfeldt and Mr Simes indicated, what holds true in business negotiations, in terms of preparation and style, often holds true in the diplomatic sphere. It was pointed out that Soviet negotiators may be willing to let negotiations drag on for years if it appears to be to their benefit; that deadlocks may not be as insurmountable as they may first appear; that it may often be preferable to operate with informal agreements because of the degree of maneuverability they allow; that American diplomatic negotiations are heavily influenced by domestic public opinion and domestic politics and can thus be thwarted even after an agreement has be negotiationed; and that it is a common practice for the Soviet government to use private Western groups as a means of influencing the position of the U.S. government in negotiations. Mr. Simes likened US-Soviet negotiations to a heavyweight boxing match, and stressed that the most crucial consideration in East-West negotiations is not a balance of arguments, but a balance of power.

The third and final panel dealt with negotiations in the cultural and social spheres and featured Mr. Allen Kassof, Director of IREX, Professor Howard Raiffa of the Harvard Business School and Professor C.C. Lamberg-Karlovsky of Harvard's Department of Anthropology and Curator of the Peabody Museum. Mr. Kassof stressed the importance of continuing negotiations after the agreement has been signed, in order to guarantee that contracts and agreements are fulfilled. The crucial nature of long-term personal contacts can not be overstated. He also commented on the Soviet notion of "exceptionalism" -- the Soviets claim they can't get their paperwork done on schedule, so you have to process your paperwork more quickly. Professor Raiffa spoke about his many years of experience with the International Institute of Applied Systems Analysis (IIASA) in Vienna, stressing the recurring theme of personal relationships and back channel cooperation. Professor Lamberg-Karlovsky discussed his ongoing negotiations, started in 1977, to obtain permission to excavate in Soviet Central Asia. He stressed that the Soviets must be able to clearly identify benefits which will be derived from cooperation if one hopes to reach some kind of agreement. He also pointed out that competing interests within the USSR itself (between different Ministries, Republics, or cities) can create internal tensions which can result in delays or rejections.

CURRENCY FIGURES

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French franc	10.17	10.36	9.84
Japanese yen	.401	.408	.405
Italian lira	.0459	.0468	.0457
Swiss franc	37.71	37.99	37.52

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THE NEW YORK TIMES, SUNDAY, MAY 4, 1986

Business

THE GRIM TOLL OF CHERNOBYL

A Threat to Soviet Economic Reform

By MARSHALL I. GOLDMAN

WHILE there obviously is never a good time for a nuclear meltdown, the Chernobyl disaster comes at a particularly awkward moment for the Soviet economy. It may well abort Mikhail S. Gorbachev's ambitious effort to turn the Soviet economy around.

Before Chernobyl, Mr. Gorbachev's efforts to discipline and motivate the Soviet work force were beginning to bear fruit. According to official Soviet data, in the first three months of 1986, industrial production rose 6.7 percent and labor productivity 6.3 percent over the comparable period in 1985.

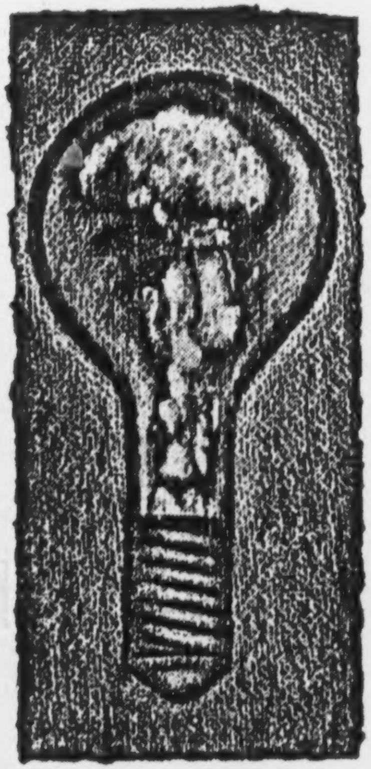
Even oil production was increasing again. Since Mr. Gorbachev made a personal tour of the west Siberian oilfields last year, fired several officials and criticized many more, production — which at one point was down by 4 percent on a monthly basis — has rebounded to a 2 percent growth rate, compared with the same month a year before. Equally impressive, steel production increased by 10 percent in the first quarter of 1986, compared with a year earlier, something not seen for a decade or more.

Building on this momentum, Mr. Gorbachev seemed to be preparing to bring high technology and better services to the Soviet Union so that it would be competitive with the United States not only in military strength but in economic sophistication. Given the resistance to previous attempts at reform, this may have been an unattainable dream. But to make any inroads, Mr. Gorbachev realized he would have to establish his credibility as a manager and leader, and he seemed to be doing just that — until Chernobyl.

The accident jeopardizes not only his credibility, but also the economic momentum he has generated. There is no way that Mr. Gorbachev could have escaped at least some criticism for Chernobyl, but the inept, if not unconscionable, way the Soviet people have been kept in the dark about the potential dangers has turned a bad situation into one with unusually serious and enduring consequences.

The first economic casualty, then, is the sense that the Soviet Union had finally found itself a leader who would provide his people with the openness and respect they have so long been denied. As the editors of Sovietskaya Rossiya, a Moscow newspaper, said in January, "In the interests of truth and of speaking openly with people on all vital questions, our information must be up-to-date, accurate and complete." For Mr. Gorbachev, Chernobyl fails on all three accounts.

The second casualty is the Soviet energy industry. At a minimum, Chernobyl's four generating units, with a total capacity of 4,000 megawatts, will be out of commission for the foreseeable future. Even though the units account for almost one-half of the Ukraine's electrical capacity, nuclear-generation provides only 11 percent of the Soviet Union's total electric energy. So the loss of Chernobyl is not irreplaceable, particularly now that the weather is warmer and the days sunnier. Yet, in a country long accustomed to brownouts, any loss of capacity hurts.



Moreover, the accident will slow the Soviet's nuclear drive, requiring the diversion for electricity generation of more natural gas, coal and possibly some petroleum that otherwise could be set aside for hard-currency exports. Fortunately for Mr. Gorbachev, oil production is increasing again, but that increase will not compensate for the fall in world oil prices, all the more so if more energy must be kept for home consumption.

The last thing the Soviets need is a further crimp in their hard-currency earning abilities — Soviet foreign debt will increase by over $5 billion this year because of falling oil prices. The recent shift in the winds to the south and the east from Chernobyl is putting many important Soviet crops in the country's rich black-soil zone at risk. Assuming Soviet leaders do the right thing (which at this point is not all that certain), they will destroy some of these crops, which will necessitate increased imports. For a nation that imported $7 billion of grain in 1984, any further loss is unwelcome, though by no means devastating.

None of these setbacks is insurmountable. The more important consequence of Chernobyl may be the dashing of Mr. Gorbachev's hopes for reforms, innovation and inspired leadership. ■

Marshall I. Goldman is professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard.

THE SOVIET UNION

Nuclear tragedy, historical secrecy

Chernobyl shuts door on the new 'openness'

By Marshall I. Goldman
Special to the Globe

‘In the interest of truth and of speaking openly with people on all vital questions, our information must be up-to-date, accurate and complete." This editorial statement in Sovetskaia Rossia, the newspaper of the Russian Republic, on New Year's Day spelled out what is supposed to be a new official Soviet policy of increased openness. It is one that Mikhail Gorbachev has told the Soviet people he fully endorses. In a speech on Soviet television that same day, he put it this way: "Today, we call things as they are. Successes are successes; mistakes are mistakes. That is the proper medicine for arrogance and smugness."

In dealing with the Chernobyl nuclear power plant accident, Soviet authorities were neither "up-to-date, accurate or complete." Instead, their customary concerns for secrecy, image and their fear of public panics prevailed.

It is natural to ask whether the concept of openness is a new approach or wishful thinking. In fairness, until the Chernobyl meltdown, there did seem to be more openness. It would be a gross exaggeration to suggest that the Soviets had officially adopted anything close to a "sunshine law," where everything is done in the open, but some things that were never acknowledged before have indeed begun to work their way into the public domain.

Soviet television viewers have rediscovered the evening news programs such as Panorama and Vremia (Time). In contrast to the past dull and predictable porridge of statistics and tractor stories, now there are regular live interviews with industrial ministers. They are directly challenged on their shortcomings. One viewer complained, for example, that she was fired from the Ministry of Agriculture, and she wanted to know why. All of this in front of the viewing public.

The Vremia program is also the one that carried the curt communique about the crisis at Chernobyl. Brief as they are, these announcements have told the Soviet people more than they were told in earlier nuclear accidents. Thus no official word has to this day been published

Soviets

Continued from Page A17

about the catastrophe in 1957 at Kyshteyn in the Ural Mountains where it is believed hundreds of lives were lost and 20 or 30 villages simply eliminated from the map. Less far-reaching nuclear accidents occurred in 1971, near the Caspian Sea, and in 1981, at Rovno, also in the Ukraine, but they, too, were kept secret.

There is every reason to believe that the handling of the Chernobyl accident would also have been kept secret if the winds had not been blowing toward the northwest and thus outside the boundaries of the Soviet Union. The time for action is as soon as possible after any such accident occurs, so people nearby and downwind can seek shelter and protect their livestock, water and milk. Even now, we are uncertain just when the accident occurred. Some Swedes think it may have happened on Thursday or Friday. A Soviet diplomat in Canada had the gall to tell Ted Koppel on ABC-TV's "Nightline" that the reason the Soviets had not bothered to inform officials outside the Soviet Union was because it was the weekend, and they assumed that no one would be able to answer their call.

This, by the way, is not the first time that Soviet authorities have behaved in such a cavalier manner toward the outside world. Just as they did not inform their own people about the previous nuclear mishaps, so they were unwilling to provide the Canadians with any information about the satellite that crashed in Canadian territory in January 1978, even though it contained radioactive substances. Their behavior was not too much different following their September 1983 attack on Korean Airlines Flight 007; for several days, they denied they had fired on the plane, and once they belatedly acknowledged they had, they sought to justify their actions by insisting it was a spy plane.

Admittedly, the Soviet Union is not the only country that tries to hold back damaging information. The British did it when they had a nuclear accident several decades ago, and, of course, the United States has not been as forthcoming as it might be about such things as acid rain. But Soviet authorities seem to have particular difficulty dealing with bad news. Some of this is cultural and some political.

For an American, the Soviet penchant for secrecy is hard to understand. Without question, there are times in the West when we devote too much attention to news. The coverage of Three Mile Island accident in March 1979 is a good example. As serious as the failure was, no deaths have as yet resulted. But because emergency precautions must be taken immediately, a nuclear accident demands faster and more complete, rather than delayed and elliptical, coverage.

One explanation for such behavior is the Soviets' perennial concern for secrecy. The less that foreigners know about life in the Soviet Union, the better. The Soviet government recently enacted a law that, in effect, makes it a criminal offense for any Soviet citizen to reveal the details of his or her work, even if not related to military matters. For years, Soviet authorities were reluctant to publish a detailed street map of Moscow and other large cities. One of the best presents an American in Moscow could give a Muscovite with an automobile was the CIA's street map of the city with an alphabetical index. The Americans could find their way around, the Soviets could not. Similar paranoia also helps to explain why phone books are virtually unobtainable for ordinary citizens in the Soviet Union and why the last one in Moscow was published around 1982.

The Soviets are also very concerned about their image. They do all they can to control what foreigners learn about the Soviet Union. Controlling the news is not just a communist, but a historical Russian fetish. In 1787, Catherine the Great took the visiting prince of Austria, Joseph II, on a tour of southern Russia. To ensure that she and her guest had a favorable impression, the local administrator of the province, Prince Gregory Potemkin, ordered the construction of special peasant homes and assigned ranks of peasants to wave at the visiting dignitaries as they drove through. Ever since then, Potemkin villages have been used by Russian and Soviet authorities as a way of misleading not only foreign visitors, but their own superiors. It is important to show only the happy and positive side of life. In modern-day Soviet life, this is called Socialist Realism.

There is another equally important cultural explanation. The Russians traditionally have a dread of panics. After all, the revolutions of 1905 and 1917 were examples of a panic out of control. Even Dostoyevsky, in his use of the Grand Inquisitor in "The Brothers Karamazov," reflects the Russian desire for order.

On Wednesday, a Soviet visitor to my economics class at Wellesley College, a resident of Kiev, insisted that he agreed with the Soviet policy of withholding information about the nuclear accident nearby. If the government did warn people, how would they all flee Kiev? he asked. A panic would ensue, and more lives would be lost than if everybody stayed put without any precautions. As an illustration, he told of how, earlier this year, authorities in Kiev warned that the dam holding back the reservoir above Kiev had burst. Panic immediately ensued. Thirty minutes later, however, the authorities reported that there had been a mistake. Wouldn't it have been better, he asked, if there had been no such report? One of my students, bless her, raised her hand and asked, "But what if the dam had burst?" In a nuclear accident, if remedial actions are to be effective, they must be taken immediately. It may be trite, but, in such circumstances, it is better to be safe than sorry.

What is particularly disturbing in all of this is that Gorbachev has taken so long to respond. During his November summit meeting with President Reagan, Gorbachev impressed many observers with what seemed to be a new openness. Of course, that was an exercise in political manipulation – not crisis management. It may be that, eventually, he will decide to cut his losses and open the facility to public scrutiny.

Sooner or later, not only the Soviet Union but all of us must come to understand that, in the nuclear age, accidents of this sort must not be caught up in Cold War considerations. No reactor is an island unto itself.

Marshall I. Goldman is professor of economics at Wellesley College and associate director of the Russian Research Center, Harvard University.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH
CENTER

June 1, 1986 Volume X, Number 9

INDUSTRIAL PRODUCTION FIGURES

Product	April 1986	Jan-Apr 1986	1st 4 Mos. 1986 as % of 1st 4 Mos. of 1985
Electricity (bil.kw.hrs)	129	566	104%
Petroleum (inc. gas cond.)(mil. metric tons)	50.2	199	102%
Natural Gas (bil.cu.mtrs)	56.2	228	107%
Coal (mil. metric tons)	63.6	258	105%
Steel (mil. metric tons)	13.4	53.4	108%
Fertilizer (mil.tons)	3.0	11.7	111%
Metal-cutting tools (mil. rubles)	234	951	114%
Robots (in thousands)	1.2	4.7	127%
Computer Technology (bil. rubles)	0.4	1.5	118%
Tractors (mil. hpower)	4.9	18.8	106%
Paper (mil. metric tons)	2.9	11.5	109%
Cement (mil. metric tons)	11.2	44.0	108%
Meat(mil. metric tons)	0.7	3.5	108%
Margarine (1000 tons)	132	537	105%
Watches(mils.)	6.0	23.4	106%
Radios (millions)	0.8	3.0	107%
T.V. sets (millions)	0.8	3.2	105%
Automobiles (1000s)	113	446	100.4%

Industrial production for the first four months of 1986 continues to show improvement over the same period in 1985. While the overall rate of growth seems to have diminished a bit from what it was during the first three months of the year, the growth is still impressive. Gorbachev himself pointed out that the first three months of 1985 were particularly harsh, both in terms of weather and in terms of output. Thus any comparison for 1986 will automatically look better than it may actually be. Nonetheless the growth is still striking. While steel production for April 1986 only increased 2% over April 1985, the other indices are impressive and, of course, for the whole four month period, steel production was up 8%. That is down from the 10% and 11% of the earlier part of the year, but still quite a respectable growth period.

Most impressive of all, however, is the fact that petroleum production continues to grow. For the whole four month period it is up 2%, and on an April to April basis, it is up 2.5%. The commentary which accompanies the production statistics indicates that the Ministry of Petroleum is still not meeting its planned targets, but they are complemented for having increased production.

It will be interesting to see what happens with next month's figures. The Chernobyl explosion took place April 26 and presumably that should have some impact, at least on electricity production. As it is, electricity production for April 1986 over April 1985 was up 3%. It had been increasing at a rate of 4% prior to April, but indeed, as we saw, steel production is down as well, so it would be unfair to attribute the slight drop to the events at Chernobyl.

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LIVESTOCK HERDS
(in millions)

	May 1 1985	May 1 1986	1986 as % of 1985
Cattle	98.3	98.9	101%
Cows	29.6	29.3	99%
Hogs	57.4	58.9	103%
Sheep & Goats	143.6	146.5	102%
Chickens	787.8	802.2	102%

LIVESTOCK HERDS SEEM TO HAVE INCREASED

The livestock herds seem to have increased in May 1986 over earlier months this year. The number of cows is down by about 1%, but most of the other animal herds have increased. This is a change from the conditions that prevailed earlier.

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THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed. RRC @ 1986
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Summary: Professor Katerina Clark, Indiana University
"The Changing Image of Science and Technology in Soviet Literature"

Professor Clark argues that, for a number of historical and ideological reasons, science and technology are particularly important themes in Soviet literature. The early history of Soviet attitudes to these questions is informed by a scientific Prometheanism and technological utopianism, but in Bolshevik ideology these have been in dialectical conflict with an anti-intellectualism which favors the plebean and warrior classes and a "closed society." In examining the impact of this conflict on literature, Clark isolates two alternating patterns: the first is of a literature that stresses transformation and efficiency, values science and technological progress, and is obsessed with the West; the second is of a literature that has turned inward, focuses on the present or the past, and is not particularly concerned with science and technology, but emphasizes rather the class struggle or some other struggle with the enemies of the state. While these patterns hold only at a high level of generalization, they help catch the way Marxism-Leninism's scientism interacts dialogically with other currents in the Russian intellectual tradition.

During War Communism, the most utopian period in Soviet history, debate over Bolshevik commitment to modernization and urbanization was reflected in two antithetical literary trends. The first looked to the triumph of science and technology and to an age when man would be at one not with nature, but with the machine(eg. Proletcult literature). Counterposed to this tendency were a range of works expressing apprehension about modernization(such as those by Kliuev, Pilniak and Ivanov-Razumnik); these included several anti-urbanist utopias (Chayanov, Esenin) and anti-utopias (Zamyatin, Lunts). During NEP, however, this debate faded from view somewhat; literature was concerned less with the issues of technological progress than it was with struggle with enemies, and with the Civil War in particular. An important exception to this trend is F. Gladkov's Cement, a crucial work in that in the thirties and forties it came to be the model for that mainstay of Stalinist literature, the production novel. But Cement shares with other literature of its time a quasi-military ethos and an emphasis on "struggle" and winning through against all odds, which transformed what should have been fiction about production processes into a tale of individual, superhuman exploit.

During the First Five-Year Plan, the first pattern predominated in literature, once again, as it focussed on radical change through accelerated industrialization, on the wonders of electrification, and the need to "remake" society, with technology proposed as an "answer to everything." For the rest of the Stalin period, however, literature again looked more to the struggle with internal enemies, to the great struggles of the past or to those being waged within Soviet institutions. Even novels which were ostensibly about production were structured as sagas of "the struggle with nature," which was itself not self-valuable, but an allegory for political progress. In the late forties and early fifties technological progress returned once again as a theme, but once again, as in Cement, the emphasis was on the hero who could defy "reality." In contrast to the patterns of Cement, however, the importance of experts and specialists began to be stressed.

This emphasis on expertise increased over time, and by the Khrushchev years the first pattern again came to the fore. Most literature was preoccupied with how to modernize and make the economy rational and efficient, and a common trait of the negative character was that he was poorly educated. As the scientist and inventor reemerged as hero, and literature began to champion professionalism in science, it took issue with three prejudices of the Stalinist phase: that science must subordinate objectivity to dialectical materialism; that scientists and intellectuals are "bourgeois"; and that theoretical science must be subordinated to the applied.

From the mid-1960s to the mid-1970s, the second pattern emerged again in reaction to the cult of technology and efficiency of the Khrushchev era: "byt" prose, war fiction and "village prose" were all either not interested in, or opposed to, technological progress; they were not forward looking, and were concerned about the ecology and preservation of traditions rather than change. An official reaction against such "retrograde" tendencies set in in the late seventies, and continues to this day. Thus a return to the first pattern might be expected. However, that heady technological utopianism of the innocent revolutionary days is no longer possible (and especially since the threat of nuclear disaster haunts our age). Writers have been dragging their feet, and the return to the first pattern has been only partial.

7/3/86 U2030-1

HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH
CENTER

Volume X, Number 9 July 1, 1986

INDUSTRIAL PRODUCTION FIGURES

Product	May 1986	Jan-May 1986	J-May '86 as % of J-May '85
Elect. (b.kw.hrs)	122	688	104%
Petroleum (inc. gas cond.)(mil. metric tons)	52.2	251	102%
Nat. Gas (b.cu.mtr)	56.8	285	107%
Coal (mil. metric tons)	59.3	317	104%
Steel (mil. met. tons)	13.7	67.2	107%
Fertilizer (mil.tons)	3.0	14.7	110%
Metal-cutting tools (mil. rubles)	226	1179	112%
Robots (in 1000s)	1.2	5.9	125%
Computer Technology (bil. rubles)	149	775	106%
Tractors (mil. hp)	4.3	23.1	105%
Paper (mil. metric tons)	2.9	14.4	107%
Cement (mil. metric tons)	11.6	55.6	106%
Meat(mil. metric tons)	0.7	4.3	108%
Margarine (1000 tons)	123	660	104%
Watches (mils)	5.5	28.9	104%
Radios (mils)	0.7	3.7	106%
TV sets (mils)	0.8	3.9	103%
Automobiles (1000s)	104	550	99.6%

NO APPARENT CHERNOBYL IMPACT

The big question about the May 1986 production figures was whether or not Chernobyl would have any impact on electrical production. According to the official figures it did not. While that may be hard to believe in light of the fact that Chernobyl was supposed to account for 1 1/2% of all electrical production in the country, the official report is that production increased 4% for Jan-May 1986 over Jan-May 1985. Similarly, on a May 1986 to May 1985 basis, production is also up 4%. In other words, the increase in electrical output in May of 4% was the same as the increase in April of 4%. There was a slight dip in April when compared to March, but hardly enough to be significant.

Equally interesting is the fact that petroleum production continues to increase. By now, it is not just a blip in the statistical data. Production for the entire five month period in 1986 is up 1.6%, which is officially listed as 2%. However, on a May for May basis, production is up 3%. That is a very sharp turnaround from the condition a year ago, when production for May 1985 was down 4% from what it was in May 1984. May 1986 production is not quite back to where it was in May 1984 (it is still 1% below what it was), but the trend is upward and the likelihood now seems even greater that production in all of 1986 will be above 600 million tons. There is still the general perception that production is falling, a consequence of the writings of other specialists that appeared a year or so ago, particularly an article in the journal Soviet Economy. The change seems to be a result primarily of the changes in management which Gorbachev introduced and a very intensive effort at new drilling and more careful work. The crackdown on alcohol and poor discipline is clearly paying off in the oil fields.

While petroleum production has been growing, the Soviets still say it is below plan. They indicate that it is off by 2.9 million tons, which would mean that production for the five months should be growing at 2.4%, rather than 1.6%.

Production in some of the other industrial sectors is not quite as impressive. For example, whereas gas production was growing at 10% a year ago, now it is growing at 7%, and on a May for May basis, by 6%. Steel production on a month by month basis is also growing at 3%, but considering that it was dropping a few years ago, it is still an impressive growth.

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ARDEN HOUSE CONFERENCE NOTICE

Please note on your calendars that the dates for the 1987 Arden House Conference have been changed to March 20-22, 1987.

HEAD OF LIVESTOCK IN COLLECTIVE AND STATE FARMS

(in millions)

	Jun 1 1985	Jun 1 1986	Jun 86 as % of Jun 85
Cattle	98.9	99.6	100.7%
Cows	29.7	29.4	99%
Hogs	57.8	59.5	102.9%
Sheep & Goats	143.5	146.8	102.3%
Chickens	796	799.2	100.4%

The livestock herds continue to improve. The Soviets are continuing to have difficulty building up their cow herd, and the number of chickens seems to have dropped slightly from what it was last month, but overall the Soviets should be satisfied with the increase.

JOHN M. OLIN CRITICAL ISSUES SEMINAR SERIES

The last of the John M. Olin Foundation's Critical Issues Seminar series devoted to Soviet nationality issues took place on June 12th. Walker Connor of Trinity College presented a lecture entitled "The Unwithering National Question."

Professor Connor prefaced his presentation with the disclaimer that he was not a Soviet specialist; his work on the nationalities of the Soviet Union began about eight years, previous to that time he concentrated on a comparative study of nationality and national movements from a global perspective. When he began his work on Soviet nationalities he was surprised by the general lack of literature on the subject, since Marxist-Leninist states claim to be capable of harnessing nationalism in their countries.

Professor Connor's work on Soviet nationalities was essentially completed by 1984, but he sees little change in policy since Gorbachev's ascent to power. As always, the Soviet authorities insist that they are guided by Lenin's thought in the national question. It is therefore necessary to examine carefully the basic premises of Lenin's work on the national question. His essential ideas can be reduced to three presumptions: 1) before taking power, the Party must promise autonomy and rights to the national groups, such as the right to secession; 2) the Party's goal is to ultimately homogenize society through the dialectical use of national autonomy; 3)the Party must be highly centralized. The first premise, the Party's promise of national autonomy, was key to the Party's gaining and consolidating of power in the Soviet Union. Yet, nationalism is to be destroyed in the post-revolutionary state, strangely enough through such an encouragement of national rights and autonomy. In 1930, Stalin maintained that those who did not understand how such a seemingly self-contradictory policy could work did not grasp the dialectical character of historical processes. Nationalism is seen as the outgrowth of previous oppression and discrimination. Therefore, national autonomy must be encouraged so that Sovietization does not seem to be merely the continuation of national oppression. A natural coming together of the nations would follow. This belief that Sovietization would not be resisted if dressed in local attire reflects the clear distinction Lenin (and later Stalin) made between form and content. Thus, a national form was to be used to convey Party content.

The cornerstone of Lenin's policy was a period of rigorous national equality; equality is seen by the Soviets as having three aspects: economic, cultural and political. The Soviet leaders continually stress the economic equality of national regions within the USSR, and boast of the enormous economic growth of previously underdeveloped areas. Yet in 1978 it was proclaimed that economic equality had been achieved and that henceforth policy would be dictated by the demands of economic efficiency. It can easily be maintained, however, that strategic and economic concerns have always be prominent in the formulation of policy.

The most important element in the tripartite formulation of national equality has always been cultural. In the immediate post-revolutionary period, non-Russian language schools flourished. This policy was restricted in the 1930s, and the level of schooling in any language came to reflect that language group's administrative status. Even those groups with union republic status have been pressured to assimilate, particularly the Baltic nationalities, Armenia and Georgia. The differences in wording in the 1936 and 1977 constitutions clearly reflect the weakening of this cultural policy. The authorities believe that linguistic assimilation, the establishment of Russian as the state's lingua franca, will lead to cultural assimilation.

The political aspect of national equality is said to exist through the federal structure. The republics' independence is more a matter of form than of substance. The authorities have made certain that these administrative units do not become centers for national agitation by two means - cadre policy and population redistribution. Leninist national policy mandates that the central policy organs should reflect the multinational character of the state. Visible national cadres are necessary to convince groups that they are not being discriminated against. Yet, despite shifts in the make up of cadres the Soviet leadership has always been adamantly opposed to the nationalization of cadres. Thus, for example the 1961 Party program explicitly called for the exchange of cadres, as does the latest Party program. National cadres are assigned to positions of high visibility, such as first secretary, while Russian continue to dominate in the position of second secretary. The security organs continue to be disproportionately Russian.

Longstanding Soviet policy has been that regional autonomy should be granted to compact national groups, yet changes in population distribution have often deprived these administrative divisions of their national content. In nine of the 27 union and autonomous republics, the titular group no longer makes up a majority of the republic. Since 1917, the influx of Russians into non-Russian homelands has been dramatic. Since 1979 the Russians have accounted for at least seven percent of any union republic's population, except for Armenia. Titular groups in union republics today account for less than two-thirds of their republics' populations. The national concentrate within the republics, however, is now increasing as many groups refuse to leave their national homelands or return to them. The authorities continue to concoct new persuasions and requirements to impel the national groups to move, often unsuccessfully.

In summary, there is little evidence of the dialectical process as anticipated by Lenin as coming into effect. At the same time, however, it may be said that Lenin's policy has never really been given a fair trial. The cornerstone of this policy, as stated above, was the establishment of national equality which was never seriously implemented by the Soviet authorities. Even if such an equality was achieved, it is difficult to believe that national distinctions and self-identity would disappear within the framework of national autonomy. It is a fundamentally false presumption that one can have nations without having nationalism.

Susan G. Zayer

CORPORATE SPONSOR SEMINARS 1986-87

We are beginning to organize our Corporate Sponsor Seminars for this coming year. The first one will be held on Monday, September 29, 1986 at the Harvard Faculty Club. The focus will be on Chernobyl and what happened. Letters have been sent to prospective speakers and we should have a preliminary program ready for our August newsletter. We will take a look at the engineering and scientific side of what happened, as well as the political and economic side. There will also be presentations about the impact of the Chernobyl explosion on world energy and on the Soviet petroleum, coal and gas industries. We also hope to make a comparison between what happened at Chernobyl and the events at Three Mile Island. We have included a registration form for those who want to sign up early.

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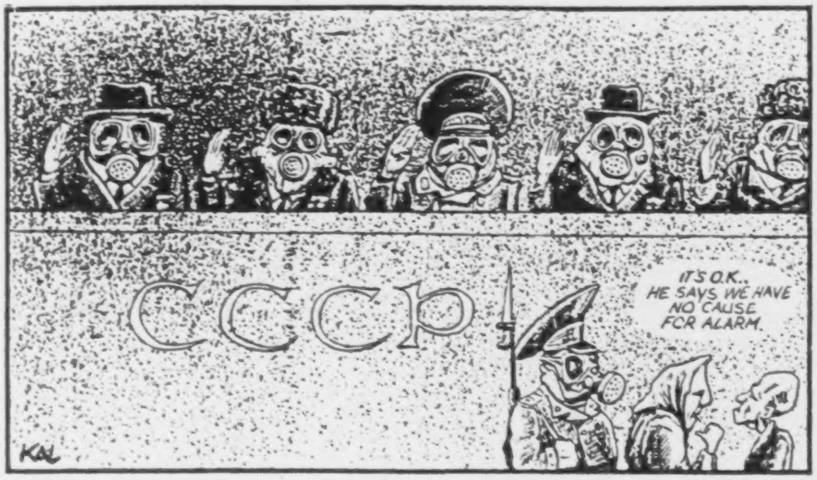
Gorbachev Openness Goes Up in Smoke

By MARSHALL L GOLDMAN


CCCP
IT'S O.K., HE SAYS WE HAVE NO CAUSE FOR ALARM.
KAL

KAL, Today, London

After Mikhail S. Gorbachev addressed his countrymen on May 14 about the nuclear-plant disaster at Chernobyl, several Western observers commented that while he should be criticized for having taken 18 days to respond, his speech nonetheless seemed to be yet another example of the Soviet leader's new openness.

Unfortunately, a closer look at Gorbachev's behavior after the explosion indicates that during the crisis he reverted to the old secretive ways of his predecessors. Despite the fact that he was informed almost immediately about the possible dangers, he and his colleagues unconscionably delayed the relocation of local residents whose health had been put at risk.

Then, in an attempt to rationalize what had happened, he reverted to half-truths and sought to explain away his responsibility by placing the blame for inaction on local officials. This hardly fits Gorbachev's New Year's Day call for more candor from Soviet officials.

To be fair, some of what Gorbachev had to say in his Chernobyl speech did meet the issue head on. For example, he described the hydrogen explosion and release of radioactive material and admitted that "the seriousness of the situation was obvious." But thereafter—in a defense of himself, his party and his country—Gorbachev indulged in a series of distortions, if not outright lies. For this he cannot be forgiven.

Gorbachev stressed that "as soon as we received reliable initial information, it was made available to the Soviet people and sent through diplomatic channels to the governments of foreign countries."

The facts are very different. According to Soviet scientists, the explosion occurred at 1:23 a.m. on Saturday, April 26. Shortly thereafter, the Council of Ministers office in Moscow was notified. Reflecting how serious they thought the situation was, the officials in Moscow immediately formed a government commission. With pride, Soviet scientists reported that even though "more than one-half of its members were in different parts of the Soviet Union, thousands of kilometers apart, we arrived, then got to work on the *same day*." Equally impressive, Gen. Gennady V. Berdov,the deputy minister of internal affairs in the Ukraine, reached the site from Kiev a mere 90 minutes after the Chernobyl explosion. They all obviously knew that they had a serious problem on their hands.

What Gorbachev did not explain, or even acknowledge, was why no one made any effort to immediately evacuate the 40,000 residents of Pripyat, less than six miles downwind of the plant. Not until 36 hours after the explosion, at 2 p.m. Sunday, were they bused out.

The Soviets waited even longer to evacuate others farther out. It was only on Saturday, May 3—a full week after the explosion—that a Moscow delegation consisting of Nikolai I. Ryzhkov, the prime minister, and Yegor K. Ligachev, the second-ranking member of the Politburo, ordered the removal of the 15,000 residents of Chernobyl, 10 miles away, and extended the danger zone from six to 18 miles. By June 5 the number evacuated had risen to more than 100,000.

Those outside the Soviet Union were not treated with any more candor. Gorbachev's assertions to the contrary, they were not provided with "full information." Indeed, beginning on Monday morning, April 28, Swedish officials telephoned three Soviet agencies—the Soviet Committee for the Utilization of Atomic Energy, the Ministry of Electric Power and the State Committee for Safety in the Atomic Power Industry—asking for information about the high radioactivity readings occurring all over Scandinavia. Despite international agreements requiring the exchange of information about accidents, all three agencies insisted that there was none to give out. It was 9 p.m. that Monday when the Soviet press issued the first public statement that anything had gone wrong—almost three full days later.

Gorbachev also distorted the truth when he asserted, "For the first time ever, we encountered such a sinister force as nuclear energy that has escaped control." It was the first time that radioactivity from a Soviet incident had been detected in the West, but the Soviets had a very serious explosion in 1957 at Kyshteyn in the Ural Mountains. Less serious incidents occurred in 1974 at Shevchenko and in 1981 at Rovno.

Gorbachev must also be held to account for his inaccessibility during the crisis. He made a public statement on May Day, and delivered a public speech from the Kremlin on May 6 in which he defended Libya. But it took more than two weeks before he said anything about Chernobyl.

Like those before him, Gorbachev sought to rally his people by blaming outsiders for excessive exaggeration and undue criticism of Soviet ineptitude. His predecessors were also unresponsive to crisis. In a state of panic, it took Josef Stalin 11 days after the Nazi invasion of the Soviet Union before he finally addressed his people. While the circumstances surrounding Chernobyl were quite different, Gorbachev's initial leadership and candor were in many ways just as flawed.

Marshall I. Goldman is the Class of 1919 Professor of Economics at Wellesley College and associate director of the Russian Research Center at Harvard University.

RUSSIAN RESEARCH CENTER
HARVARD UNIVERSITY

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CHERNOBYL: WHAT HAPPENED AND IMPLICATIONS FOR THE SOVIET AND WORLD ECONOMY

September 29, 1986

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RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Volume X, Number 10 August 1, 1986

INDUSTRIAL PRODUCTION FIGURES

Product	Prod. in 1st half of 1986	1st 6 Mo. 86 as % of same of 85
Elect. (b.kw.hrs)	805	104%
Petroleum (inc. gas cond.)(mil. metric tons)	302	102%
Nat. Gas (b.cu.mtr)	339	107%
Coal (mil. metric tons)	378	104%
Steel (mil. met. tons)	80.4	106%
Fertilizer (mil.tons)	17.5	108%
Metal-cutting tools (mil. rubles)	1,432	111%
Robots (in 1000s)	7.2	125%
Computer Technology (bil. rubles)	929	105%
Tractors (mil. hp)	27.4	105%
Paper (mil. metric tons)	3.1	107%
Cement (mil. metric tons)	67.0	105%
Meat (mil. metric tons)	5.6	108%
Margarine (1000 tons)	774	104%
Watches (mils)	34.8	105%
Radios (mils)	4.4	105%
TV sets (mils)	4.7	102%
Automobiles (1000s)	659	100.1%

HEAD OF LIVESTOCK IN COLLECTIVE AND STATE FARMS

(in millions)

	July 1 1985	July 1 1986	86 as % of 85
Cattle	98.3	99.2	100.9%
Cows	29.8	29.4	98.6%
Hogs	57.9	60.2	103.9%
Sheep & Goats	139.1	142.8	102.6%
Chickens	790	788.1	99.7%

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST SIX MONTHS OF 1986

For Gorbachev there is some very good news and some somewhat disappointing news in the production figures for the first half of 1986. Particularly striking is the fact that oil production, June 1986 compared to June 1985, was up 6%. This seems to represent a continuation of the gradual improvement that has taken place beginning in January of this year. When the figures first began to appear, there were many, particularly in the United States, who thought that it was a function of a difference in days worked and extra holidays last year. Now there is no doubt that petroleum production has increased and again, as we have suggested since the January figures came out, this is the fruit of Gorbachev's crackdown on discipline. For the whole six month period, production of petroleum is up only 2.4%, but the odds are strong that next month, when we have the seventh month report, the figures will show that production for the whole seven months will be up 3%. Again, the odds are that production for the whole year will exceed 600 million tons or 12 million barrels a day, and indeed, now the output will probably reach as high as 610 million tons or 12 and 1/5 billion barrels a day.

The not so good news is that production of steel, although up 6% for the whole six month period, is only up 2% on a June to June basis. Production of coal on a June to June basis is also up only 2%, although for the whole six months, it is up 4%.

Electrical production is up 3.5% for the whole six month period. That would seem to be a reasonable amount, although the Soviets now indicate in their press that the Chernobyl explosion has affected electrical distribution. It certainly would not seem so from the figures, but it may very well be that in the Ukraine the brown outs and shortages have posed a particular problem.

The livestock herds as a whole seem to keep growing. The number of cows is slightly lower than it was on July 1 of last year, and the number of chickens is slightly below what it was. However, the overall increase in cattle, goats and sheep is a change from the conditions of several months ago.

There are some other things that are notable about the report. For example, on a six month basis, foreign trade, that includes both exports and imports combined, is down 4% from what it was a year ago. That reflects the sharp drop in oil prices.

While the six month figures do not show it, there are some signs that the harvest this year may not be as good as was initially expected. There was a fascinating exchange on Soviet television between Ligachev, the number two man in the party, and a group of farmers in the Voronezh region. The announcer introduces the film segment by saying, "Rain is again in short supply." The dialogue with Ligachev and the workers begins with Ligachev asking a question, "So Voronezh is without bread again?" Even though the worker replies, "But we do have bread," the fact that Ligachev asked the question and that it was shown on Soviet television suggests that there has been a drought and as a consequence, some serious problems. This may help to account for our Department of Agriculture's reduction of its estimate.

Finally, given the crackdown that Gorbachev has instituted on drinking, it would be useful to look at the sales of vodka. Those figures have not been released, at least for this present six month period. But there is an additional insight that we can obtain. The Soviets publish production figures for mineral water and non-alcoholic drinks. Mineral water production was up 15% and non-alcoholic drinks, including fruit juices, Pepsi, and Fanta were up 41%. That is further reflected in the retail sales, which show non-alcoholic drink sales rising 28%, mineral water sales rising 22%, and fruit and vegetable juice sales rising 55%.

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CURRENCY FIGURES

Rubles Purchased Per 100	June 1986	July 1986
Austrian shilling	4.53	4.56
UK pound	107.15	104.55
FRG mark	31.82	32.05
US dollar	70.40	69.50
French franc	9.98	10.03
Japanese yen	.425	.433
Italian lira	.0464	.0467
Swiss franc	38.79	39.46

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CHANGE IN DATE FOR THE CHERNOBYL CONFERENCE

To accomodate our speakers, as well as government employees who could not come in September because of the close of the fiscal year, we have shifted the date for the Chernobyl conference to **October 6.** Again, it is a Monday and will be held at the Harvard Faculty Club. We hope it will not inconvenience anyone who made their plans based on the assumption that it would be the earlier week. However, we are quite excited in that we expect to have some special guests with us. Morris Rosen, an official of the International Atomic Energy Agency who visited the Chernobyl site, expects to be flying over from Vienna especially for the conference. In addition, **Dr. Robert Gale** of the UCLA Bone Marrow Unit, who has spent a good deal of time in Soviet hospitals, has also indicated he will attempt to join us. It should make for a fascinating discussion.

In addition to the discussion about Chernobyl, **Bernard O'Keefe,** formerly the chief executive officer of E G and G, Inc., the company called in after the accident at Three Mile Island, will attempt to compare what happened at Three Mile Island with the events at Chernobyl.

*_*_*_*

BALANCE OF TRADE FOR THE FIRST QUARTER OF 1986

As had been anticipated, Soviet exports during the first quarter of 1986 dropped. The drop was not as much as one might have expected, however. It amounted to only about 130 million rubles. The main reason for the drop, of course, is the decline in petroleum prices. We will have to wait longer to see exactly what happened to the absolute volume of exports, but everything indicates that the number of tons of petroleum exported also fell.

Even more striking, however, is the fact that Soviet imports dropped so sharply. There was a drop from the industrialized countries of Europe of about 100 million rubles, but even more, the drop from the grain exporting countries amounted to about 700 million rubles. Imports from the United States, which consisted primarily of grain, were half of what they were in the first quarter of 1985. The Soviets also reduced their imports from Argentina.

Undoubtedly the Soviets seem to feel that their grain harvest for 1986 would be considerably improved, and they had cut back their imports. This makes the comment by Ligachev, noted elsewhere in the newsletter, even more significant. If this has been a bad year in terms of weather, the Soviets certainly are going to feel it and may then have to start importing more grain.

In any case, the combined result of a small drop in exports, but a very large drop in Soviet imports results in a trade deficit that is considerably improved from what it was during the first quarter of 1985. It is still a trade deficit, but not nearly as sharp.

THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed. RRC @ 1986

LETTER FROM CHINA

Deng moves the economy ahead

By Merle Goldman and Marshall I. Goldman
Special to the Globe

PEKING – There is a danger of exaggeration, but a visitor who returns to China after a two-year absence must be forgiven for being overwhelmed at the pace of economic change. China is still a very long way from being Japan or even a South Korea or Taiwan – indeed the poverty of the country is still overwhelming.

But what is new about China is the speed of its development. It is the rate of change that stirs memories of South Korea in the mid-1970s. The changes the Deng Xiaoping leadership has been promising since late 1978 are now becoming clearly visible.

Construction is everywhere. Land that was covered with ramshackled one-story dwellings, four or even two years ago, may now be the site for an ultra-modern hotel or office building. The pace is so fast that downtown Beijing may soon lose much of its traditional flavor. There are up-to-date Sheraton, Mariott and Holiday Inn hotels that almost pass for their counterparts in Hong Kong or Phoenix.

So much construction is not necessarily impressive in and of itself. There is also much construction going on in the Soviet Union, but it generally takes seven to nine years to finish a project. By contrast in China today the pace is much faster.

In Shanghai which until recently has been neglected in favor of Peking, the work is conducted in two or three shifts to make up for lost time. Shenzhen, a Specific Economic Zone, which just four years ago was a village, has become a city packed with new factories, apartments and modern office buildings. In almost every city along the coast, row after row of dwellings are being bulldozed and wide-open streets and new buildings are being built in their place.

The countryside is sharing in the activity. In fact, incomes have shown the sharpest gains in the countryside. For all intents and purposes, the communes have been dissolved. Peasant families now sign contracts with the state to farm land for 15-year periods. Once they pay a tax and quota to the state, the rest of their harvest is theirs to dispose of as they choose. This has unleashed the peasants' harvests and business initiative.

The incomes of most peasants have doubled and even tripled and they have diverted much of their new wealth into improved housing. The countryside is being filled with more and more two-story peasant homes, something quite rate until these new reforms began. Another consequence is that even though the Chinese grain harvest dropped in 1985, China has now become a net exporter of grain, even exporting to the Soviet Union.

Although construction is the most visible sign of growth, equally striking is the spread of enterprises, shops and peddlers operating on a private basis throughout the country. According to one report, the number has increased from 140,000 in 1978 to 18 million in 1985. Relatively few people have gone into manufacturing. After all, China remains a socialist state, with limits as to how many employees a business may hire, although no one seemed to know with certainly just what were the limits.

Though less visible, the economic reforms are also changing the state sector. For example, the director of the Beijing Printing and Dyeing Plant, a textile factory with 3,000 employees, can now decide for himself who to hire, how much to pay them, where to sell a large percentage of his production and where to buy his raw materials. He also has the power to fire his employees.

The government now urges bankruptcy for inefficient enterprises. In a society where everyone has been assured of a guaranteed job and welfare (the Chinese call it the iron rice bowl), firing and bankruptcy are radical concepts.

Just how far the reform has moved is suggested by the fact that in Beijing and Shanghai and a few other large cities, the directors of several of the larger state manufacturers have formed Associations of Manufacturers.

The Beijing unit was established in May 1985 and has representatives from 110 factories. There is a membership committee to evaluate new applicants. In addition to theater and social parties for their wives, they meet to discuss common problems and seek meetings with representatives of the government and the Bank of China to lobby for their interests – more autonomy and better financial arrangements.

In Shanghai there are actually three such groups, including one for younger members – on the order of a Young Presidents Organization in this country, except of course they all manage state-owned enterprises.

What is significant about such groups is that the initiative to create them came not from the state, but from the managers themselves. Normally in communist societies, particularly in the Soviet Union, there is no such thing as an organization outside the framework of the government, particularly one representing the bosses.

Of course, not everything has changed, even along the fast-developing coastal areas. Despite new and unexpected traffic jams, the overwhelming mass of people still travel and move their goods by bicycle, animals and on their backs. Nor have all the reforms been warmly received. Some Party officials express worry about what they see as the drift away from socialism and others, on a more practical note, are distressed because price reform has resulted in a three-fold increase in some food prices and a double-digit increase in the overall level of prices.

Although the central government has delegated more authority to the enterprise, local officials continue to impose all kinds of nuisance taxes and restrictions.

As successful as the Chinese have been, the first steps toward reform were not easy. They came slowly and amid much controversy. Yet the road ahead may be even more difficult, particularly when it comes to integrating the growing private or nonstate sector with the state sector. Already thre are signs that some party leaders, as well as the managers of the state sector, feel their powers and prerogatives are being weakened and have tried to reassert themselves. Still, so far it appears that the rapid increase in economic growth, even if not equally distributed, has generated more supporters than critics.

The biggest uncertainty about the reforms is what will happen when Deng dies. Most Chinese say the reforms have gone so far and are so widely supported that there is no turning back. Others are not so sure. There is a large body of influential party officials who are visibly distressed over what they see as the growing consumerism and materialism in the society.

Whatever does happen, however, all agree that Deng will go down in history as one of the greatest revolutionaries, even if his revolution is not the kind we have come to expect from communist countries in the 20th century.

Merle Goldman is professor of Chinese history at Boston University and associate of the John K. Fairbank Center for East Asian Research at Harvard University. Marshall I. Goldman is Class of 1919 Professor of Economics at Wellesley College and associate director of the Russian Research Center at Harvard.

RUSSIAN RESEARCH CENTER
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FOUNDATION

CHERNOBYL: HOW THE SOVIET SYSTEM RESPONDED - Economic, Political, and Social Implications

October 6, 1986

Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138

9:45 a.m. WHAT HAPPENED - THE SCIENTISTS' POINT OF VIEW

Richard Wilson, Mallinckrodt Professor of Physics, Harvard University

James McKenzie, Senior Associate, World Resources Institute, Washington, D.C.

Morris Rosen, International Atomic Energy Agency, Vienna

11:30 a.m. IMPACT ON ENERGY MARKETS

Ted Shabad, The New York Times, "Prospects for Coal"

12:15 p.m. SHERRY

12:30 p.m. LUNCH

1:30 p.m. **Dr. Carol Sakoian**, Director, International Government Affairs, Conoco, "Prospects for the Petroleum Markets"

2:00 p.m. THE MEDICAL AND POLITICAL RESPONSE

Dr. Robert Gale, University of California at Los Angeles, "Health Implications"

Marshall I. Goldman, Class of 1919 Professor of Economics, Wellesley College and Associate Director, Russian Research Center, Harvard University, "Gorbachev and the Government Reaction to Chernobyl"

WHAT HAPPENED AT THREE MILE ISLAND AND HOW IT COMPARES TO CHERNOBYL

Bernard O'Keefe, President, E G & G

4:45 p.m. **ADJOURN**

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CHERNOBYL: HOW THE SOVIET SYSTEM RESPONDED -- Economic, Political, and Social Implications

October 6, 1986

Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138

Please enroll me as a participant:

Name____
Last First Middle

Title/Position____

Affiliation/Organization__________________________________

Mailing Address____
Street Apt. #

____
City State Zip code

Home Phone ( )_______________ Business Phone ( ) _______________

ADMISSION: $150.00 (one hundred fifty dollars) per participant.
PLEASE MAKE CHECKS PAYABLE TO HARVARD UNIVERSITY.
Fee covers all meals and beverages indicated in program

Harvard affiliates may attend the conference (no meals) without charge, but must register in advance.

HOTEL RESERVATIONS: If you would like us to make hotel reservations for you, please complete the following information. We will send you a confirmation letter with hotel rate, location and phone number.

Size: ( ) Single ( ) Double

Date(s):____

Please return completed form and check to:

Catherine Reed, Program Coordinator, Russian Research Center, Harvard University, 1737 Cambridge Street, Cambridge MA 02138
(617) 495-4037

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH
CENTER

Volume X, No. 11 September 8, 1986

INDUSTRIAL PRODUCTION FIGURES

Product	Prod. in 1st 7 mo of 1986	1st 7 Mo. 86 as % of same of 85
Elect. (b.kw.hrs)	925	104%
Petroleum (inc. gas cond.)(mil. metric tons)	354	103%
Nat. Gas (b.cu.mtr)	394	107%
Coal (mil. metric tons)	440	104%
Steel (mil. met. tons)	93.9	106%
Fertilizer (mil.tons)	20.2	107%
Metal-cutting tools (mil. rubles)	1,680	111%
Robots (in 1000s)	8.7	129%
Computer Technology (bil. rubles)	1083	105%
Tractors (mil. hp)	32.0	105%
Paper (mil. metric tons)	3.6	106%
Cement (mil. metric tons)	78.4	105%
Meat (mil. metric tons)	5.9	108%
Margarine (1000 tons)	812	105%
Watches (mils)	40.7	104%
Radios (mils)	5.2	105%
TV sets (mils)	5.5	102%
Automobiles (1000s)	772	99.9%

LIVESTOCK
(in thousand tons)

	Jan-July 1986	Jan-July 86 as % of Jan-July 85
Cattle	6.130	107%
Hogs	2.749	107%
Sheep & Goats	354	98%
Chickens	1.485	112%

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST SEVEN MONTHS OF 1986

The Soviets continue to increase their oil output. Oil production rose 4% in July 1986, compared to what it had been in July 1985. For the seven months as a whole, production is up 2.3%, even though the official Soviet statistics indicate that it was up 3%. The month to month growth is not as much as it was on a June to June basis, but it still continues to pull up the overall growth for the whole seven month period.

There are some commentators who continue to refer to the drop in oil production, including several reporters. Certainly the Soviet decision to reduce petroleum exports to Western Europe by 100,000 barrels a day is a reflection more of a desire to cooperate with OPEC than any response to the drop in production. In fact for the year as a whole, production should now reach close to 610 million tons, assuming that production continues at the present rate for the remaining five months of the year.

A particularly intriguing aspect of the seven month report is the fact that electrical generation continues as a relatively respectable rate of growth. The Soviets have indicated at the meeting about Chernobyl, which took place in Vienna, that they were reinspecting about half of the Chernobyl-type graphite reactors used to generate electricity. That would suggest that some of them have been closed down. However, on a July to July basis, electrical generation in July 1986 is up 3.4% from July 1985. For the whole seven month period, production is up 3.8%, or rounded off to 4.0%, as reported officially by the Soviets. In fact, electrical generation seems to have not been effected at all, at least according to the statistics, from May through July. We also know that there have been reports of electrical shortages and brown outs, particularly in the Ukraine. Nonetheless, the electrical generation for the nation does not seem to have been effected. In other words, there doesn't seem to be a correlation between the statement that some reactors have been closed down and the fact that the statistics show growth almost as normal. There doesn't even seem to be much impact from the fact that reactors 3 and 4 at Chernobyl have been shut down. The implication is that the Soviets are continuing to run the other reactors and making adjustments while production proceeds. Indeed, even during the experiment that set off the explosion, the Soviets waited at least temporarily until they could provide the electricity they needed before they began the full experiment.

Other indices of note include steel production, which is up a robust 6% for the entire seven months, and coal production which is up 4%.

As a whole, the growth continues to be impressive, again responding to Gorbachev's heavy emphasis on discipline. Meat production is up 8%. Reflecting the crackdown on alcohol, fruit juice production is up 47% and non-alcoholic drinks are up 41% over the period a year ago.

Although again it is a figure with ambiguous meaning, the Soviets report that industrial production for the whole seven months is up 5.4%.

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CURRENCY FIGURES

Rubles Purchased Per 100	July 1986	Aug 1986
Austrian shilling	4.56	4.69
UK pound	104.55	100.89
FRG mark	32.05	32.99
US dollar	69.50	67.85
French franc	10.03	10.14
Japanese yen	.433	.442
Italian lira	.0467	.0480
Swiss franc	39.46	40.97

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THE CHERNOBYL CONFERENCE

This will be the last notice of the conference to be held on the events at Chernobyl. A copy of the program and an application form is enclosed. Dr. Gale has indicated he will try to come, but there is an outside chance that he might be in Moscow at the time. We should know later in the month, but not in time to include in this newsletter. He has indicated however, that if he is not in Moscow, he will join us.

Morris Rosen will also be coming, along with Richard Wilson, who was also in attendance at the special briefing provided by the Soviets in Vienna. They should be able to give us some additional insights.

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CONFERENCE FOR JOURNALISTS

The Russian Research Center will hold its fourth conference for journalists on November 10, 1986 (Monday), at the Harvard Faculty Club, 20 Quincy Street in Cambridge.

We are planning this conference in anticipation of a summit meeting. We are also expecting that Nicholas Daniloff will be released from Soviet prison and will be able to join us as he indicated he would before his arrest. With or without the summit, the discussion of his experiences should be interesting. We have enclosed a copy of the program and an application form for the briefing. This conference is intended primarily for journalists and those involved with communications.

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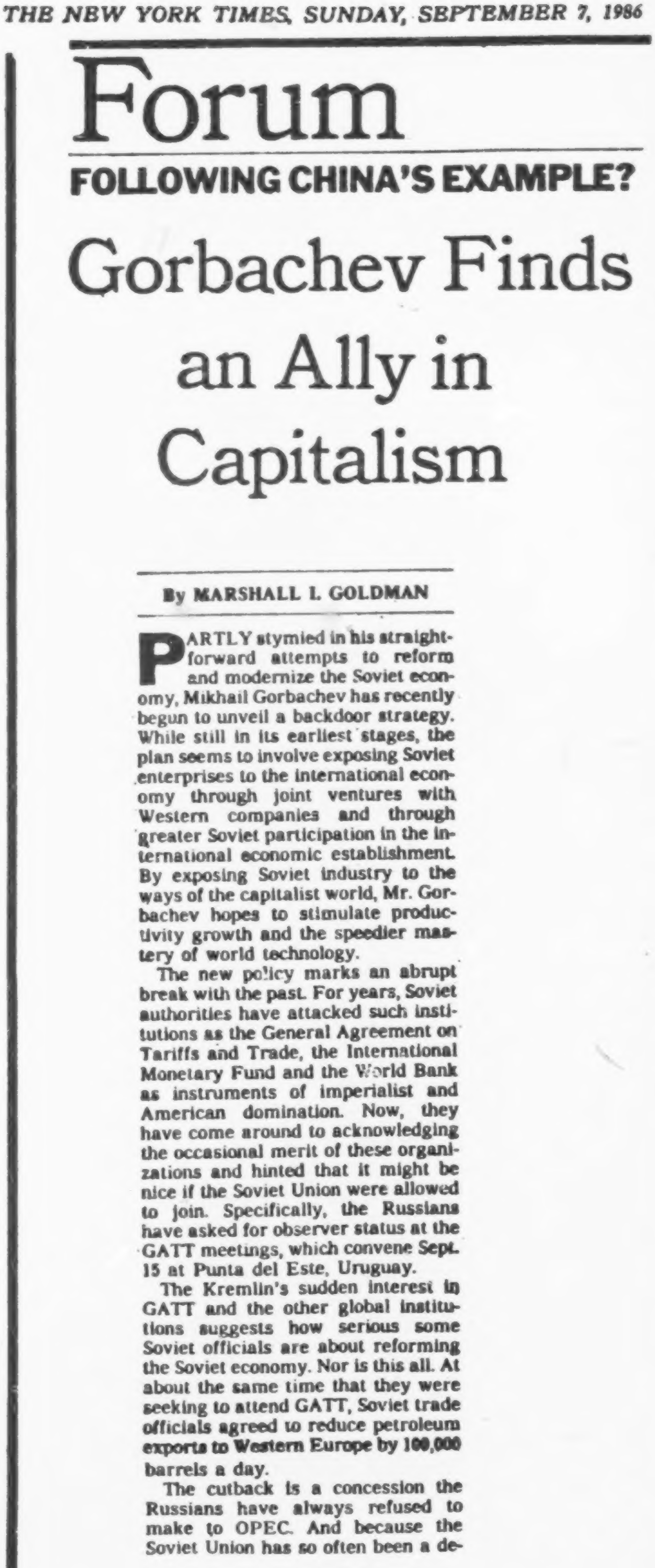

THE NEW YORK TIMES, SUNDAY, SEPTEMBER 7, 1986

Forum

FOLLOWING CHINA'S EXAMPLE?

Gorbachev Finds an Ally in Capitalism

By MARSHALL I. GOLDMAN

PARTLY stymied in his straightforward attempts to reform and modernize the Soviet economy, Mikhail Gorbachev has recently begun to unveil a backdoor strategy. While still in its earliest stages, the plan seems to involve exposing Soviet enterprises to the international economy through joint ventures with Western companies and through greater Soviet participation in the international economic establishment. By exposing Soviet industry to the ways of the capitalist world, Mr. Gorbachev hopes to stimulate productivity growth and the speedier mastery of world technology.

The new policy marks an abrupt break with the past. For years, Soviet authorities have attacked such institutions as the General Agreement on Tariffs and Trade, the International Monetary Fund and the World Bank as instruments of imperialist and American domination. Now, they have come around to acknowledging the occasional merit of these organizations and hinted that it might be nice if the Soviet Union were allowed to join. Specifically, the Russians have asked for observer status at the GATT meetings, which convene Sept. 15 at Punta del Este, Uruguay.

The Kremlin's sudden interest in GATT and the other global institutions suggests how serious some Soviet officials are about reforming the Soviet economy. Nor is this all. At about the same time that they were seeking to attend GATT, Soviet trade officials agreed to reduce petroleum exports to Western Europe by 100,000 barrels a day.

The cutback is a concession the Russians have always refused to make to OPEC. And because the Soviet Union has so often been a destablizing force in the spot oil market, the gesture itself has helped push up oil prices, even though it represents less than 10 percent of the country's normal exports to Western Europe. SOVIET OFFICIALS HAVE → evidently come to appreciate that, under some circumstances, less may actually mean more — particularly if by showing restraint, the increase in oil prices more than compensates for the reduction in crude exports.

Equally intriguing is the Kremlin's decision of Aug. 14 to authorize the creation of joint ventures. There are reports that the Soviet Union has already created such operations with the Bulgarians. In a speech in Vladivostok on July 28, Mr. Gorbachev extended the invitation to the Japanese. The Finns have also been approached, and even some American corporations are considering opening up some jointly run food-processing operations.

Mr. Gorbachev has also indicated a willingness to open up the city of Vladivostok, long closed to foreigners because it is also the site of one of the Soviet Union's most sensitive military bases. Now he hints that it may become a "major international center ... a seat of trade and culture ... an open window to the East." He did not specifically mention "special trade zones," such as those established by the Chinese, but his vision certainly suggests something similar.

These new initiatives apparently were undertaken after Mr. Gorbachev encountered severe opposition to his domestic campaign for economic reform. That effort has run head-on into bureaucratically bound planners, ministers, party officials and industrial functionaries who are doing their best to resist change. In a fit of frustration, Mr. Gorbachev complained recently that he was having problems with those who "want to dim our eyes and obstruct our progress." There are "among us," he went on, "people who have difficulty grasping the word restructuring and sometimes they have difficulty even pronouncing it."

BY working through the international sector, Mr. Gorbachev will outflank the several dozen industrial ministers and ministries that command various aspects of domestic economic affairs and will face only the Ministry of Foreign Trade. Right now that ministry is not up to its usual fighting form. It has suffered a major turnover of personnel, and those who have not been retired, fired, jailed or subjected to audit for possible corruption are probably intimidated enough to stand aside for reforms that in a different era would have been opposed with vigor.

Thus, the push for more international contact will encounter relatively little entrenched opposition. Under Mr. Gorbachev's prodding, the Russians have decided to institutionalize the effort and have created a new International Economic Department in the Ministry of Foreign Affairs. To head the department, Mr. Gorbachev has picked an unusually imaginative and sophisticated economist with the unlikely name of Ivan Ivanov.

Until recently the deputy director of the Institute for World Economics and International Relations, Mr. Ivanov has made frequent visits to the West and has always impressed those who have met him with his knowledge and understanding of both the Soviet and American economic systems. He also has a keen sense of what Soviet leaders must do if they are to resolve their economic difficulties. What is striking is how much of what is happening now is what he has advocated previously.

As far as I can tell, Mr. Ivanov was one of the first Soviet scholars to argue that the Soviet Union should join GATT. He did that two years ago at a meeting that surprised his Soviet colleagues even more than it did the American participants. He has also suggested that the Soviet Union should join the International Monetary Fund and the World Bank (which might also be a way for the Soviet Union to gain most favored nation status, since membership in the two organizations normally brings with it that trade privilege). He has even given thought to making the Soviet ruble convertible.

However, Mr. Ivanov's success in transforming his theoretical musings into concrete action is far from assured. Opposition will rise in direct proportion to the degree of economic interaction, as Soviet industries feel pressured to modernize their operations and as foreigners gain more freedom of movement within the Soviet Union.

Naturally, the Soviet Union cannot act unilaterally on these matters. It is far from clear whether the United States or other Western nations would allow it into our Western clubs. There are sure to be strongly voiced concerns that, in pointed contrast to the United Nations, organizations such as GATT, the International Monetary Fund and the World Bank have functioned as well as they have only because of Moscow's absence.

However far the Russians decide to go, and however much we decide to encourage them, these new initiatives are nonetheless remarkable for their daring and the willingness of Soviet leaders to re-examine past dogmas. The odds are that opposition within the Soviet Union and resistance in the West will prevent the Soviet Union from achieving all that someone like Mr. Ivanov would prefer. Nevertheless, the process of proposing and implementing this historic policy shift will be fascinating to follow. ■

Marshall I. Goldman, professor of economics at Wellesley College, is author of the forthcoming "Gorbachev's Challenge: Economic Reform in the Age of High Technology."

BALANCE OF TRADE - 1st QUARTER OF 1981, 1982, 1983, 1984, 1985, 1986

(Million Rubles)

	EXPORTS FROM THE USSR						IMPORTS TO THE USSR					
	1981	1982	1983	1984	1985	1986	1981	1982	1983	1984	1985	1986
Austria	189	196	149	167	142	155	137	119	188	230	166	236
Belgium	105	280	230	194	178	143	125	198	152	142	149	156
Great Britain	148	219	227	307	252	246	300	169	208	183	166	150
Greece	99	121	36	84	107	47	30	37	35	32	27	18
Denmark	31	94	68	60	61	34	108	29	19	36	21	42
Spain	65	30	68	54	47	13	131	61	84	65	107	61
Italy	474	589	745	721	388	334	247	292	392	294	302	293
Netherlands	189	317	378	371	103	107	158	142	129	58	68	70
Norway	20	9	10	29	10	10	20	17	18	27	15	24
Germany	477	1001	851	1119	773	862	722	744	940	800	838	786
France	485	471	432	572	407	361	468	348	491	473	509	428
Switzerland	15	87	139	83	71	89	181	118	121	90	134	135
Sweden	30	66	116	129	83	66	105	101	72	67	79	65
Japan	201	187	196	195	208	230	609	801	654	520	570	577
SUBTOTAL	2528	3667	3645	4058	2830	2697	3391	3176	3503	3017	3151	3041
Sub-Balance of Trade							-863	+491	+142	+1041	-321	-344
U.S.A.	12	23	54	83	75	71	573	980	526	580	1005	507
Canada	17	7	4	3	6	3	137	148	243	86	84	124
Australia	2	2	1	5	1	3	252	130	202	137	202	206
New Zealand	1	2	1	1	--	1	50	109	88	22	23	36
Argentina	12	8	7	6	12	26	349	310	367	323	296	59
Brazil	2	44	4	42	24	21	138	148	93	161	57	92
TOTAL	2574	3753	3716	4225	2948	2822	4890	5001	5022	4326	4818	4065
Balance of Trade							-2316	-1248	-1306	-101	-1870	-1243

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Volume X, No. 12

October 10, 1986

INDUSTRIAL PRODUCTION FIGURES

Product	Aug. 1986	Prod. in 1st 8 mo of 1986	1st 8 Mo. 86 as % of same of 85
Elect. (b.kw.hrs)	120	1045	104%
Petroleum (inc. gas cond.)(mil. metric tons)	52.6	407	103
Nat. Gas (b.cu.mtr)	55.8	450	107
Coal (mil. metric tons)	61.5	502	104
Steel (mil. met. tons)	13.4	107	105
Fertilizer (mil.tons)	2.8	23.0	106
Metal-cutting tools (mil. rubles)	239	1922	111
Robots (in 1000s)	1.2	9.9	125
Computer Technology (bil. rubles)	0.4	3.2	115
Tractors (mil. hp)	4.3	36.3	104
Paper (mil. metric tons)	0.5	4.1	105
Cement (mil. metric tons)	11.5	89.9	104

Product	Aug. 1986	Prod. in 1st 8 mo of 1986	1st 8 Mo. 86 as % of same of 85
Meat(mil. metric tons)	0.8	6.7	107
Margarine (1000 tons)	94.7	907	105
Watches (mils)	5.6	46.3	103
Radios (mils)	0.7	5.9	104
TV sets (mils)	0.8	6.3	103
Automobiles (1000s)	108	880	99.5

LIVESTOCK

(in thousand tons)

	Jan-Aug 1986	Jan-Aug 86 as % of Jan-Aug 85
Cattle	6947	107%
Hogs	3124	106
Sheep & Goats	554	104
Chickens	1694	111

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INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST EIGHT MONTHS OF 1986

The biggest puzzle continues to be the increase in electricity generation. For the whole eight month period, the Soviets report a four percent increase. In August 1986 compared to August 1985, electrical generation was only up 3.4% Still, even a 3.4% increase is respectable. What is intriguing about the report is, however, that the Soviets continued to indicate that there are regional shortages of electricity. Given the fact that the Soviets have a grid system, there should not be such shortages, even in the Ukraine. The loss of Chernobyl, in other words, does not seem to have made much difference for the country as a whole, despite the local complaints of regional shortages.

As for oil production, it continues to grow. For August 1986 compared to August 1985, production was up 4.4%. For the whole eight months, production is up only 3%, reflecting somewhat lower increases in the earlier part of the year. Nonetheless, the Soviets should be able to produce 12 million barrels a day with no trouble; that is, 600 million tons for the whole year and indeed, it will probably be reasonably above that. As for other industrial commodities, coal production is up for the month of August 1986, compared to the month of August 1985, by 1.8%; gas is up 6.6% (this represents a slight slowing of the rate of growth) and steel production for the month of August was up only 1.5% compared to a 5% increase for the whole eight months.

It is also worth noting that as we mentioned in earlier newsletters, the production of fruit juices is up 53% for the eight months compared to 1985 and non-alcoholic drinks are up 35%

LIVESTOCK

The situation with livestock is very mixed. Whereas last year at this time, the size of the chicken flock was up by almost 4%, this year it is down by over 1%. Similarly, while last year the number of cattle, cows and pigs, sheep and goats were all down compared to what they had been for the comparable period of 1984, this year the number of cattle, sheep and goats and particularly pigs is up sharply. There may be a pattern to this but we are unable to discover what it is.

CURRENCY FIGURES

Rubles Purchased Per 100	Aug 1986	Sept 1986
Austrian shilling	4.69	4.70
UK pound	100.89	101.36
FRG mark	32.99	33.09
US dollar	67.85	68.03
French franc	10.14	10.09
Japanese yen	.442	.437
Italian lira	.0480	.0479
Swiss franc	40.97	40.63

THE CHERNOBYL CONFERENCE

The first of the 1986 Corporate Sponsor seminars was held October 6, 1986 at the Harvard Faculty Club. The topic of the conference, Chernobyl: How the Soviet System Responded, was well attended by individuals representing businesses engaged in economic trade with the USSR, utility companies, the media, and Harvard affiliates. The first panel discussed the actual accident, how it happened and why. Panelists included Morris Rosen, Director of Nuclear Safety, International Atomic Energy Agency; Richard Wilson, Mallinckrodt Professor of Physics, Harvard University, and James McKenzie, Senior Associate, World Resources Institute.

The second panel examined the impact of the accident on world energy markets. Presentations were made by Ted Shabad, Professor of Geography at Columbia University and a correspondent for The New York Times; Carol Sakoian, Director of International Government Affairs, Conoco, Inc.; and Raffaele Santoro, Vice Chairman and Executive Vice President, AGIP.

The afternoon panel featured a variety of topics ranging from health implications to domestic and economic policy. Dr. Robert Gale, UCLA Medical School, commented on his work at Hospital No. 6 and what incidence of health disorders may ensue as a result of the accident. Marshall Goldman, Associate Director, Russian Research Center, discussed

Gorbachev's response to Chernobyl and the impact of the accident on Gorbachev's domestic and economic policy. Erik Hoffman, State University of New York at Albany, discussed information policy and published reports about Chernobyl in the Soviet press, and what these reports suggest for Gorbachev's policy of glasnost'. Bernard O'Keefe, Chairman of the Executive Committee, EG&G, provided a lively account of his experience at Three Mile Island and commented on the differences between the Three Mile Island accident and Chernobyl.

While we do not have room to publish a transcription of the conference here, tapes are available at the Russian Research Center.

NOTICE

Please note on your calendars that the dates for the 1987 Arden House Conference have been changed to March 20-22, 1987.

CONFERENCE FOR JOURNALISTS

Whether it is foresight or dumb luck, our journalist's conference this year will feature Nicholas Daniloff as one of our evening speakers. The rest of the session will be devoted to an analysis of the Soviet Union as it prepares for the next major summit meeting between President Ronald Reagan and Mikhail Gorbachev.

The Russian Research Center will hold its fourth conference for journalists on November 10, 1986 (Monday), at the Harvard Faculty Club, 20 Quincy Street in Cambridge.

We have enclosed a copy of the program and an application form for the briefing. This conference is intended primarily for journalists and those involved with communications.

THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed. RRC © 1986

THE BOSTON SUNDAY GLOBE OCT. 5, 1986

Clearing the road to the summit

Superpowers make most of a no-win situation

By Marshall I. Goldman
Special to the Globe

Even though American-Soviet relations are seldom thought of as boring, last week's events were extraordinary. Secretary of State George P. Shultz and Soviet Foreign Minister Eduard A. Shevardnadze met for a series of secret encounters that whetted our appetites, particularly after Shultz insisted the week before that no such meeting would take place unless Shevardnadze had something of substance to say about Nicholas S. Daniloff. Then on Monday, quick as a blink, Daniloff was whisked out of Moscow with his wife, his Moscow press pass and, of all things, a reentry visa.

Once out of the Soviet Union, Daniloff's release opened the way for the US release of accused Soviet spy Gennadi F. Zakharov, a Soviet promise of freedom to emigrate for dissident Yuri Orlov and, most surprising of all, joint announcement of a preparatory summit in, of all places, Reykjavik, Iceland. What are we to make of all this, and what does it mean for the future?

While nothing is ever smooth or idyllic in American-Soviet relations, the sequence of events could hardly have been predicted a week ago. Economists often speak of a zero-sum game, where one side wins and the other loses. However, the Daniloff-Zakharov standoff appeared to be one that neither side could win. The momentum to the Washington summit expected for December had been broken. The air was filled with recriminations. President Reagan called Zakharov a spy and wrote a letter to Soviet leader Mikhail F. Gorbachev insisting that Daniloff was not a spy. Gorbachev, who had been quiet about the matter up to that point, promptly issued a public comment that Daniloff had been caught red-handed spying. In other words, Reagan was a liar. The only thing missing was a Gorbachev claim that Zakharov was innocent; nonetheless, a Gorbachev spokesman did make such a claim, so Reagan in effect was saying the Soviet spokesman – and by extension Gorbachev – was a liar.

Under the best of circumstances, finding a graceful way out of this impasse was no easy challenge. But these were not the best of circumstances. It was not enough that Shultz and Shevardnadze would have to deal with each other, they also had to worry about their right-wing flanks. We in the United States are all too aware that Reagan could not appear too soft for fear of unleashing an attack from the Pentagon and conservative politicians who would just as soon never have a summit anyway. The arrest of Daniloff was a made-to-order "I told you so" confrontation for the hard-liners.

What we in the United States often lose sight of is that Gorbachev has the same kind of pressures. Upon his return from the Geneva summit last November, his pleasure at the results was quickly tempered by his generals and his own conservatives, who criticized him for coming home with nothing but sweet nothings from Reagan. Reagan had yielded not an inch, while Gorbachev had hamstrung himself with a test ban on nuclear weapons. As the United States went about testing as usual, the Soviet military lost almost a year and a half of testing time to the United States. That explains Gorbachev's sudden insistence that before there could be any new summit, there would have to be a concrete and signable agreement. Despite Gorbachev's promise to come to the United States in 1986, the Kremlin line soon became "no agreements-no summit."

It was against this background that the Soviet authorities reacted quickly and meanly when their man Zakharov was arrested in a New York subway station. Zakharov had been dealing with his American contact for two to three years and, in Soviet minds, his arrest, one and a half months before the United Nations meeting between Shultz and Shevardnadze, was a provocation, much like the sending of the U-2 spy plane over the Soviet Union before the Nikita Khrushchev-Dwight Eisenhower summit in 1960. The Soviets responded as they have always responded when one of their representatives without diplomatic immunity is arrested for spying – they arrested an American in Moscow. They did the same in 1963, when they arrested Frederick C. Barghoorn, a professor from Yale University, and in 1978 with Jay Crawford, a businessman with International Harvester. Like good soldiers, the Soviets always hang tough until they bring their man back alive, even if he has to be in prison for a year or two.

Is there a clear winner?

Why was Daniloff picked? He had been a bother to the Soviets; he knew too much about them, but, more than anything else, his term was ending, and his replacement had already arrived. It is always messier when an American is arrested without a replacement on hand. Then there is always the question about whether or not new papers should be issued for a replacement. It is neater and cleaner if the replacement is already in place. Otherwise, it could have been anyone else in Moscow. Always be sure your travel plans call for you to be somewhere other than in the Soviet Union in the weeks following our arrest of a Soviet spy.

What was so impressive about the rapid solution of the standoff is that everyone can claim that the other side blinked first. Actually, an equal victory makes more sense for the future of negotiations than a one-sided victory. Both sides must meet again, and that would be a more difficult thing to arrange if one side felt humiliated.

What about all the original protestations from both sides that there would be no exchange, that each "spy" would be tried, etc.? By now, we should realize that successful diplomacy can be defined as a step-by-step compromise of a country's principles. Since we like to think we hold to a higher set of principles than the Soviets, our compromising will undoubtedly generate more controversy here than would be the case in the Politburo; but there is no doubt that Gorbachev suffered, too. What happened to that new, more open and honest society he had proclaimed?

So, who won this most recent contest? Not that it matters, but an impartial scorekeeper could argue we won. Daniloff had no trial (Crawford was subjected to trial in 1978 and found guilty), and Daniloff was allowed to keep his press pass and journalist reentry visa. The odds are he will never use it, but it allows him to say that the return of these materials by the KGB is a tacit acknowledgment of his innocence. Moreover, the Soviets threw in Orlov. So we get two for one. True, they got Zakharov back, but only after pleading no contest (he reversed his guilty plea, and he agreed to a probation of five years and that he would not return to the United States during that period). I'm sure he won't.

But there are some bigger issues involved. The decision to hold a mini-summit is a breakthrough. By agreeing to meet with only 10 days' notice and in Reykjavik, both sides ensured that the circus environment that would attend such a meeting in Geneva, Washington or Moscow would be absent. There simply aren't the hotel rooms. In fact, except for Katmandu in Nepal, there is probably no better place for such a meeting. In Reykjavik, the two leaders may have an opportunity to discuss some basic differences, rather than worry about preening for public attention.

Equally important, there is no agenda. That is a major shift in position for Gorbachev, who until now has insisted that there could be no summit until there was a fixed agenda where major agreements could be signed, or at least a commitment to a ban on nuclear testing by President Reagan. Gorbachev changed his mind because he probably realized that the recent exchange of taunts between both sides requires a period of mending. His No. 1 priority is economic reform, but he cannot pursue that course until he can reduce or at least freeze his military spending. He needs Reagan for this and a meaningful summit, but after calling Reagan a liar, that would have been difficult to do without this preliminary meeting, where presumably they can pick up where Geneva left off.

The mini-summit is such a good idea that perhaps it should be followed on a regular basis. If the two men meet often enough, we may begin to make less of a fuss about such events. This will allow them to concentrate more on the big issues, to instruct their staffs to resolve rather than create problems, which they often do without the proper instructions from their bosses.

The issues that divide our two countries are major ones: the differences in human values, our own insistence on SDI, their insistence on a test ban. None of these will be easily resolved. But there are some important issues on which we may be able to reach agreement, such as nuclear weapons in Western and Eastern Europe, a ban on chemical testing and some agreements on verification and the obervance of military maneuvers.

Ten years from now, there will be only a few of us who remember the names Daniloff or Zakharov. In all likelihood, between now and then, there will be other jailed spies and hostages, just as there have always been; but the event that will endure will be the remarkable mini-summit and, one hopes, the more sweeping Washington summit to follow.

Soviets' secret industrial might

Managers create slack in system so they can up production on demand

By Boris Rumer
Special to The Christian Science Monitor

Although the Soviet economy is unquestionably in severe straits, its inherent potential is not well known, even to the Soviet government itself.

Among Western analysts it is widely believed that the only practical way for the Soviet Union to reinvigorate the economy is by reducing military spending.

The economy's potential has been exhausted, they say, and the situation is so severe that the Soviet generals must accept a sharp drop in military spending during the current Soviet five-year plan (1986-90).

ANALYSIS

This, however, is not necessarily true. Soviet sources tend to overstate the achievements of their economy, but they underestimate its industrial potential.

There is a case in which this has already been proved.

One of the greatest problems the Soviet economy faces is the country's shortage of steel. Production began to fall in 1979, and many industrial enterprises stood idle because they lacked the metal. But in 1983, steel production shot up.

The increase came about because of an explicit threat from then-Soviet leader Yuri Andropov to Ivan Kazanets, the minister of the Soviet steel industry: Increase steel production or expect the fate of a number of other ministers — dismissal.

A group of workers signed an open letter published in the Communist Party daily Pravda a month after Andropov's rise to power, taking Mr. Kazanets to task: "We have been unable to make shipments of products to critical start-up industrial and agricultural projects, the Western Siberia oil and gas complex, residential projects, and public services. It is incomprehensible to us, Ivan Pavlovich, why management in the steel industry has so little regard for the fulfillment of the state plan and delivery contracts."

Similar letters were printed in Pravda during the Stalin purges in the 1930s. They were clear signals that the addressee was about to be arrested. Of course, the letter to Kazanets did not carry the macabre implications of the Stalin era. But it was a clear ultimatum, and presented the managers of the steel industry with a sudden crisis, not unlike the kind of challenge that would test an army's state of preparedness.

Fortunately for Kazanets, the steel industry passed the test with flying colors — with an increase of 5.3 million tons, which brought steel production for 1983 to an unprecedented 152.5 million tons.

There is no way that Andropov's tightening of the screws could, by itself, have produced the surge in output. The sufficient potential for production had to exist in advance.

A key fallacy of the Soviet government is thus exposed. The government agrees to take enterprises at their word when they say that they use their productive capacities at a very high level and even touts this as one of the advantages of the Soviet economic system. Soviet technical and economic literature frequently reports that the steel industry's production capacity is almost totally (96 percent to 98 percent) utilized.

This is not the case. A government survey of steel-plant capacities done in the late 1960s is the most reliable information available on this point. The researchers found, after studying almost every Soviet steel plant, that the majority of them had deliberately underestimated their production capacity. The plants then — falsely — reported to Gosplan (the State Planning Committee) that they ran their plants at almost 100 percent of their capacity. Gosplan, in turn, accepted these figures and made them the basis for subsequent planning.

This is not an isolated situation. Yakov Kvasha, an authority on Soviet industrial statistics and a leading expert on industrial capacities, noted in 1970 that "without exception there are rather significant amounts of reserve production capacity in every sector of Soviet industry."

Gosplan knows of the deliberate understatement of production capacities; it is an open secret. But no one wants to establish the industry's true potential.

Why? The steel ministry, no less than the steel plants themselves, is interested in maintaining and building up production reserves. There are three reasons:

- Enterprises need room for maneuvering, so that government planners don't commit them to produce more than they are capable of producing.
- Plants must be able to produce on very short notice, in case the government asks them to overfulfill their plan for some special occasion, such as Lenin's birthday or the anniversary of the October Revolution.
- Barter is essential to the Soviet economy, so managers must have at hand a certain amount of unreported production to trade with their fellow managers in other parts of industry for goods that are in short supply and that they can't get through official channels.

If production capacities were reported objectively, the true potential of most enterprises would be seen to be much higher, and the Soviet government would demand that the slack be tightened up.

Also, it would be clear that the plants are not operating on the high level suggested by Soviet statistics — that, in fact, their performance would be comparable to that of the United States steel industry in its bad years — an embarrassing admission for Soviet officialdom.

The same situation can be found in all branches of industry — machine-building, chemical production, construction materials, and so on. Every Soviet industrial enterprise creates and conceals its real production capacities. This has been endemic to the Soviet economy from the very beginning.

Thus, the ability of Soviet industry to do more than Soviet planners expect of them is of considerable significance and could be quickly exploited in the event of a crisis. US specialists generally underestimate the Soviet industrial potential. In a crisis, the economy could perform much better than it does now, without any change to the existing system.

THE CHRISTIAN SCIENCE MONITOR
INTERNATIONAL
WEDNESDAY, SEPTEMBER 24, 1986

Soviet military spending

It's going up, despite weak Soviet economy

By Boris Rumer
Special to The Christian Science Monitor

Soviet leader Mikhail Gorbachev's promise to find a response to President Reagan's Strategic Defense Initiative should not be seen as a bluff.

Some Western analysts have suggested that the Soviet Union will have to decrease military spending because of its serious economic problems. It is also said that, under Mr. Gorbachev, the Soviet military is weak, since the current defense minister is not a voting member of the ruling Politburo.

But such views ignore important facts.

In the first place, several former executives in the military-industrial complex hold key positions in Soviet economic planning under Gorbachev. They include the Kremlin's No. 3 man, Heavy Industry Secretary Lev Zaikov; the chairman of the state planning committee, Nikolai Talyzin; the overseer of Soviet machine building, Ivan Silayev; and the chairman of the state committee for supply and procurement, Lev Voronin.

Second, Gorbachev is trying to accelerate the growth and quality of machinery production with an 80 percent increase in investment under the current Soviet five-year plan (1986-90). In the past, the only times such increases occurred were between 1934 and the outbreak of World War II, when new arms programs were being developed in anticipation of conflict with Nazi Germany, and between 1966 and 1975, when there was explosive growth in arms production.

By contrast, when Soviet resources were concentrated on improving the domestic economy (in rebuilding the housing-construction boom during the Khrushchev era), the share of machine building in total investment fell to its lowest point.

During Joseph Stalin's pre-war arms buildup, the machine-building industry's share of investment within Soviet industry was 31 percent. It went up to 34 percent during the war, and dropped to 14 percent during the housing boom.

Gorbachev said in May last year that the goals of the Soviet economy today are like those on the eve of World War II, when "it was felt that the threat to the socialist state was increasing," and that a drive to increase Soviet preparedness for war was under way. Indeed, under the current five-year plan, the share of investment in machine building will likely jump to around 30 percent.

An editorial this April in the Soviet Journal of Military History, the mouthpiece of the Ministry of Defense, noted: "The party views the level of development of the economy as one of the decisive factors in strengthening the defensive capability of the state ... and ensuring military victories. In this light, the Communist Party has decided on a broad program for increasing investment in the basic branches of heavy industry."

Clearly, there is a close link between the development of new arms programs and sharp increases in machine-building investment. But just how important is arms production in this investment?

Gorbachev himself revealed the key to this question in June 1985, when he told a meeting of the Communist Party Central Committee that investment in the civilian sector of the machine-building industry amounted to around 5 percent of the total volume of investment in the productive sphere of the economy in the previous five-year plan (1981-85).

The publication of Gorbachev's statement in the open press is an event without precedent. Looking at official statistics on investment in the machine-building industry in the light of Gorbachev's remark, the production of military machinery in 1981-85 consumed just under 60 percent of the total machine-building investment.

The figure is striking and came as a surprise to leading American experts with whom I discussed this matter. Their previous estimates were within the range of 35 percent to 40 percent.

What can be expected in this five-year plan? Will the Soviets maintain or even increase this level of spending?

During the three post-Stalin decades, the average annual rate of growth in machine-building investment was 9 percent in 1956-65, 12 percent in 1966-75, and 3.5 percent to 4 percent in 1976-85. Since about 60 percent of this investment went to defense, it was quite obvious that the decrease in investment over the last decade would hurt the defense sector.

The heavy investment between 1966 and 1975 sharply increased the military's machine-building ability. But one has to allow four to five years for research, development, testing, and construction of weapons systems. Because of this lag, the increased investment continued to be felt through the entire 1976-85 period, but not thereafter. Thus, the spurt in investment from 1966 to 1975 helped to fund the upgrading of arms systems and to create new weapons in the next decade.

However, the investment echo of those years had died away by the time Gorbachev came to power. The sharp slowdown in investment in 1976-85 created a serious threat to the Soviet Union's military strength. Never in the post-Khrushchev era had the defense industry been so hard pressed for investment funds.

The need was urgent. The new Soviet leaders saw that, unless they moved quickly, the United States would gain military superiority over them. There was only one course of action: They must make a strong infusion of investment in defense machine building.

They chose the only path open to them: reducing spending on goods and services. The regime is secure enough that it does not have to fear the reaction of the Soviet population. Thus, Gorbachev's calls for technological progress appear to be primarily for the purpose of modernizing the Soviet defense industry so that it can create a response to SDI.

It is not prudent for the US to assume that the Soviet leaders will back away from new defense programs.

The pattern of current Soviet spending suggests just the opposite.

Second of two articles.

Boris Rumer is a research associate at Harvard University's Russian Research Center.

THE SOVIET UNION: ORIENTATION FOR JOURNALISTS - AND PREPARATION FOR SUMMIT II?

November 10, 1986

Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138

9:45 a.m. **POLITICAL DEVELOPMENTS**

Mark Beissinger, Associate Professor of Government, Harvard University and Fellow, Russian Research Center, "Struggle Within the Kremlin"

Adam Ulam, Gurney Professor of History and Political Science, Harvard University and Director of the Russian Research Center, "American-Soviet Relations: Where are We Headed?"

Joseph Nye, Professor of Government, Harvard University, Director of the Center for Science and International Affairs, Kennedy School of Government, "Star Wars and Arms Control: Are the Two Compatible?"

12:30 SHERRY

1:00 p.m. LUNCH

2:00 p.m. **SOCIAL AND ECONOMIC DEVELOPMENTS**

David Powell, Fellow, Russian Research Center, "Social Change Inside the Soviet Union"

Marshall I. Goldman, Class of 1919 Professor of Economics, Wellesley College and Associate Director, Russian Research Center, "Chernobyl and Its Impact on Economic Reform"

4:00 p.m. Demonstration of live broadcast from Soviet television

5:00 p.m. COCKTAILS

5:15 p.m. DINNER

6:30 p.m. COVERING THE NEWS IN MOSCOW

Nicholas Daniloff, former Moscow correspondent, *U.S. News and World Report*

Maria Casby, Producer, ABC News in Boston, formerly Producer of ABC News, Moscow

8:15 p.m. ADJOURN

HARVARD UNIVERSITY
RUSSIAN RESEARCH CENTER and THE NIEMAN FOUNDATION

THE SOVIET UNION: ORIENTATION FOR JOURNALISTS - AND PREPARATION FOR SUMMIT II?

November 10, 1986

Harvard Faculty Club
20 Quincy Street, Cambridge MA 02138

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Confirmation of your room reservation will be sent with your seminar reservation and receipt.

Please return completed form and check to:

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